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IN THE

Supreme Court of the United States

October Term, 1976

No. 76-910

EDWIN K. WILLIAMS & CO.—EAST, INC. and MARCOIN, INC.,

Petitioners,

vs.

EDWIN K. WILLIAMS & CO., INC., KEMP PRINTING CO. and MRS. E. K. WILLIAMS,

Respondents.

Petition for a Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit.

RAYMOND C. FISHER,
609 South Grand Avenue,
Los Angeles, Calif. 90017,
Counsel for Petitioners.

TUTTLE & TAYLOR INCORPORATED,
HAROLD J. KWALWASSER,
Of Counsel.

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Respondents.

Petition for a Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit.

Petitioners Edwin K. Williams & Co.—East and Marcoin, Inc. pray that a writ of certiorari issue to review the judgment of the United States Court of Appeals for the Ninth Circuit entered in this case on August 31, 1976.

OPINIONS BELOW.

The opinion of the district court is reported at 377 F. Supp. 418 and the decision of the Court of Appeals is reported at 542 F.2d 1053. These opinions are reprinted in the Appendix.

JURISDICTION.

The judgment of the Court of Appeals for the Ninth Circuit was entered on August 31, 1976, and a timely

petition for rehearing thereon was sought. It was denied on November 17, 1976. This Court's jurisdiction is invoked under 28 U.S.C. § 1254(1).

STATUTORY PROVISIONS AND REGULATIONS INVOLVED.

15 U.S.C. § 1.

Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is declared to be illegal: *Provided,* That nothing contained in sections 1 to 7 of this title shall render illegal, contracts or agreements prescribing minimum prices for the resale of a commodity which bears, or the label or container of which bears, the trademark, brand, or name of the producer or distributor of such commodity and which is in free and open competition with commodities of the same general class produced or distributed by others, when contracts or agreements of that description are lawful as applied to intrastate transactions, under any statute, law, or public policy now or hereafter in effect in any State, Territory, or the District of Columbia in which such resale is to be made, or to which the commodity is to be transported for such resale, and the making of such contracts or agreements shall not be an unfair method of competition under section 45 of this title: *Provided further,* That the preceding proviso shall not make lawful any contract or agreement, providing for the establishment or maintenance of minimum resale prices on any commodity herein involved, between manufacturers, or between producers, or between wholesalers, or between brokers, or between factors, or between retailers, or between persons, firms, or corporations in competition with each other. Every person who shall make any contract or engage in any combination or conspiracy declared by sections 1 to 7 of this title to be illegal shall be deemed guilty of a misdemeanor, and, on conviction thereof, shall be punished by fine not exceeding fifty thousand dollars, or by imprisonment not exceeding one year, or by both said punishments, in the discretion of the court.

15 U.S.C. § 14.

It shall be unlawful for any person engaged in commerce, in the course of such commerce, to lease or make a sale or contract for sale of goods, wares, merchandise, machinery, supplies, or other commodities, whether patented or unpatented, for use, consumption, or resale within the United States or any Territory thereof or the District of Columbia or any insular possession or other place under the jurisdiction of the United States, or fix a price charged therefor, or discount from, or rebate upon, such price, on the condition, agreement, or understanding that the lessee or purchaser thereof shall not use or deal in the goods, wares, merchandise, machinery, supplies, or other commodities of a competitor or competitors of the lessor or seller, where the effect of such lease, sale, or contract for sale or such condition, agreement, or understanding may be to substantially lessen competition or tend to create a monopoly in any line of commerce.

17 U.S.C. § 1.

Any person entitled thereto, upon complying with the provisions of this title, shall have the exclusive right:

(a) To print, reprint, publish, copy, and vend the copyrighted work;

(b) To translate the copyrighted work into other languages or dialects, or make any other version thereof, if it be a literary work; to dramatize it if it be a nondramatic work; to convert it into a novel or other nondramatic work if it be a drama; to arrange or adapt it if it be a musical work; to complete, execute, and finish it if it be a model or design for a work of art;

(c) To deliver, authorize the delivery of, read, or present the copyrighted work in public for profit if it be a lecture, sermon, address or similar production, or other nondramatic literary work; to make or procure the making of any transcription or record thereof by or from which, in whole or in part, it may in any manner or by any method be exhibited, delivered, presented, produced, or reproduced; and to play or perform it in public for profit, and to exhibit, represent, produce, or reproduce it in any manner or by any method whatsoever. The damages for the infringement by broadcast of any work referred to in this subsection shall not exceed the sum of $100 where the infringing broadcaster shows that he was not aware that he was infringing and that such infringement could not have been reasonably foreseen; and

(d) To perform or represent the copyrighted work publicly if it be a drama or, if it be a dramatic work and not reproduced in copies for sale, to vend any manuscript or any record whatsoever thereof; to make or to procure the making of any transcription or record thereof by or from which, in whole or in part, it may in any manner or by any method be exhibited, performed, represented, produced, or reproduced; and to exhibit, perform, represent, produce,

or reproduce it in any manner or by any method whatsoever; and

(e) To perform the copyrighted work publicly for profit if it be a musical composition; and for the purpose of public performance for profit, and for the purposes set forth in subsection (a) hereof, to make any arrangement or setting of it or of the melody of it in any system of notation or any form of record in which the thought of an author may be recorded and from which it may be read or reproduced: *Provided,* That the provisions of this title, so far as they secure copyright controlling the parts of instruments serving to reproduce mechanically the musical work, shall include only compositions published and copyrighted after July 1, 1909, and shall not include the works of a foreign author or composer unless the foreign state or nation of which such author or composer is a citizen or subject grants, either by treaty, convention, agreement, or law, to citizens of the United States similar rights. And as a condition of extending the copyright control to such mechanical reproductions, that whenever the owner of a musical copyright has used or permitted or knowingly acquiesced in the use of the copyrighted work upon the parts of instruments serving to reproduce mechanically the musical work, any other person may make similar use of the copyrighted work upon the payment to the copyright proprietor of a royalty of 2 cents on each such part manufactured, to be paid by the manufacturer thereof; and the copyright proprietor may require, and if so the manufacturer shall furnish, a report under oath on the 20th day of each month on the number of parts of instruments manufactured during the previous month serving to reproduce mechanically said musical

work, and royalties shall be due on the parts manufactured during any month upon the 20th of the next succeeding month. The payment of the royalty provided for by this section shall free the articles or devices for which such royalty has been paid from further contribution to the copyright except in case of public performance for profit. It shall be the duty of the copyright owner, if he uses the musical composition himself for the manufacture of parts of instruments serving to reproduce mechanically the musical work, or licenses others to do so, to file notice thereof, accompanied by a recording fee, in the copyright office, and any failure to file such notice shall be a complete defense to any suit, action, or proceeding for any infringement of such copyright.

(f) To reproduce and distribute to the public by sale or other transfer of ownership, or by rental, lease, or lending, reproductions of the copyrighted work if it be a sound recording: *Provided,* That the exclusive right of the owner of a copyright in a sound recording to reproduce it is limited to the right to duplicate the sound recording in a tangible form that directly or indirectly recaptures the actual sounds fixed in the recording: *Provided further,* That this right does not extend to the making or duplication of another sound recording that is an independent fixation of other sounds, even though such sounds imitate or simulate those in the copyrighted sound recording; or to reproductions made by transmitting organizations exclusively for their own use.

In case of failure of such manufacturer to pay to the copyright proprietor within thirty days after demand in writing the full sum of royalties due at said rate at the date of such demand, the court may

award taxable costs to the plaintiff and a reasonable counsel fee, and the court may, in its discretion, enter judgment therein for any sum in addition over the amount found to be due as royalty in accordance with the terms of this title, not exceeding three times such amount.

The reproduction or rendition of a musical composition by or upon coin-operated machines shall not be deemed a public performance for profit unless a fee is charged for admission to the place where such reproduction or rendition occurs.

37 C.F.R. § 202.1.

Material Not Subject to Copyright.

The following are examples of works not subject to copyright and applications for registration of such works cannot be entertained:

(a) Words and short phrases such as names, titles, and slogans; familiar symbols or designs; mere variations of typographic ornamentation, lettering or coloring; mere listing of ingredients or contents;

(b) Ideas, plans, methods, systems, or devices, as distinguished from the particular manner in which they are expressed or described in a writing;

(c) Blank forms, such as time cards, graph paper, account books, diaries, bank checks, scorecards, address books, report forms, order forms and the like, which are designed for recording information and do not in themselves convey information.

(d) Works consisting entirely of information that is common property containing no original authorship,

such as, for example: Standard calendars, height and weight charts, tape measures and rulers, schedules of sporting events, and lists or tables taken from public documents or other common sources.

QUESTIONS PRESENTED.

1. Do the prohibitions on vertical restraints set forth in *United States v. Arnold, Schwinn & Co.*, 388 U.S. 365 (1967); *Standard Oil Co. of Calif. v. United States,* 337 U.S. 293 (1949), and other cases apply to service industries or trade name licenses?

2. May two competitors avoid the *per se* proscription against horizontal allocations of customers and territories by casting their agreement to divide markets in the form of a trade name license?

3. Are blank accounting forms made copyrightable by their inclusion with instructional material?

STATEMENT OF THE CASE.

This litigation arises from a dispute between petitioner Edwin K. Williams & Co.-East, Inc. ("East")[1] and respondent Edwin K. Williams & Co., Inc. ("West"), the two dominant companies in the United States which market accounting books and management services to the retail petroleum industry. West attempted to prevent any competition from East by trying to enforce the provisions of an East-West agreement (referred to in these proceedings as the "Revised Agreement") which allocated customers in the eastern half of the United States to East and those in the western half to West, and prohibited East from any competition with West under any trade name with regard to any aspect of the retail petroleum business. It succeeded below to

[1]Petitioner's co-defendant and co-petitioner is Marcoin, Inc., of which Edwin K. Williams & Co., Inc.-East is a wholly-owned subsidiary.

the extent of winning a massive damage verdict for breach of those contractual terms, notwithstanding the fact that those provisions of the Revised Agreement should have been declared void and unenforceable as a violation of the antitrust laws.

In 1970, West filed an action in a California state court for a declaratory judgment interpreting the Revised Agreement and for specific performance, injunctive relief, and an accounting. It also asked for damages for breach of contract and unfair competition. East removed the action to the United States District Court for the Central District of California, and in its amended answer contended that the Revised Agreement constituted a violation of the antitrust laws, including § 1 of the Sherman Act, 15 U.S.C. § 1, because it illegally divided customers and territories between actual or potential competitors.

The parties also were in dispute over the validity of West's copyrights on blank forms contained in West's numerous accounting books. West charged petitioner Marcoin with copyright infringement in the sale of recordkeeping books to BP Oil, Inc. ("BP"), whereas petitioners contended that the copyrights obtained by West not only for the BP book, but also for its other similar books were invalid to the extent they were for forms not subject to copyright.[2]

[2]The books consist of a cover, instructions and the blank forms. Petitioners did not contest the copyrights as to the instructions, but denied infringing West's BP instructions. The covers of the books, including the BP books, are designed by the purchasing oil company customer. (Sheffield Deposition, pp. 41-48; RT 2920; P 2260 p. 3.) Citations are as follows: "RT" refers to reporter's transcript; "P" refers to plaintiffs' (West) exhibits; "DX" refers to defendants' (East and Marcoin) exhibits. Depositions in evidence but not read into the record are cited in the format of the Sheffield deposition, *supra.*

Because the Revised Agreement could not be terminated voluntarily, in February 1972 East repudiated it and began to compete with West in the western half of the United States under the name "Marcoin," and in the eastern territory (as defined by the Revised Agreement) under the name "Edwin K. Williams & Co.-East."[3] The district court subsequently enjoined East from using the "Williams" trade name, effective January 1, 1973, but refused to enjoin East's competition (as Marcoin) in the western United States.[4] A six-week trial in January and February 1974 developed the following facts material to the questions presented by this petition:

West and East are the successors in interest to two men, Williams and Harris, who were originally in business together in the 1940's. They jointly developed two related but separate lines of business for the retail petroleum industry: (a) the design and sale of recordkeeping books for gasoline service station accounting, sold primarily to oil companies; and (b) a business management service, sold to gas station dealers. In 1952 Williams and Harris, who had previously severed their relationship, entered into an agreement

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[3]East believed that it, through its predecessor in interest, Fred Harris, had bought the entire ownership of the "Williams" trade name for the eastern territory in 1952 and so contended in the courts below. However, the courts below have held that the 1952 agreement and the subsequent 1968 Revised Agreement did not sell petitioners the "Williams" trade name, but only licensed its use. While disputing these findings, petitioners are not seeking to review them here.

[4]West alleged East engaged in unfair competition after the repudiation occurred. The district court agreed, but awarded no damages on that ground.

dividing the country into two roughly equal parts—Williams taking the western United States and Harris, the east (about 22 states). The effect of the agreement was to divide customers and territories between the two parties. In 1966 East developed yet a third line of business, retail management seminars, principally for oil company executives, which it sold under the name "Staff Development Company." When East attempted to market its seminars to oil companies located in West's territory, West sued to prevent East's intrusion even though West did not develop its own seminar until 1969.

That lawsuit led to the 1968 Revised Agreement. By that time the two companies were dominant in the book and management services businesses. East's management services were different in content and philosophy from West's, but were being marketed under the "Williams" trade name. (See RT 454-56, 490-491; Hamilton Dep. pp. 325-26.) Likewise, all the recordkeeping books East designed and sold in its territory were printed and copyrighted by West as "Williams" publications.

The Revised Agreement continued and expanded the market division between the two companies in all three businesses. They agreed that East would market its seminars as well as its management services and the accounting books under the umbrella of the "Williams" trade name. West has admitted that the agreement "on its face divide[d] territories and customers" between the two companies (Answer to Interrog. No. 82; RT 4169); it further required East to market *any* products or services related to the retail petroleum industry under the "Williams" trade name, thereby fore-

closing East as a competitor in any such new businesses or in marketing any such competing non-"Williams" branded products or services. (*See* App. pp. 45-46.) The net effect was to eliminate any form of interbrand as well as intrabrand competition between the parties in the retail petroleum industry.

East and West found it impossible to live harmoniously under the Revised Agreement. East, faced with the obvious antitrust exposure of continuing to operate under an agreement which it admitted was a violation of the antitrust laws, ultimately repudiated the Revised Agreement in 1972. Significantly, after East terminated the agreement and began competing nationally with West—ultimately as Marcoin—West for the first time had to lower its prices on its recordkeeping books and its seminars to meet competition. (RT 536-38, 588-93.)

At trial, East claimed that the Revised Agreement was a horizontal allocation of territories and customers between competitors or potential competitors, and that it substantially foreclosed interbrand competition. West contended that East was its copyright and trade name licensee and that it could therefore confine East to a territory and prohibit any interbrand competition. To this East responded that even if the Revised Agreement constituted a license, and was therefore a vertical arrangement, *United States v. Arnold, Schwinn & Co.*, 388 U.S. 365 (1967), applied and the territorial and customer restrictions were invalid according to that decision.

The district court concluded that the Revised Agreement was not an unlawful horizontal arrangement because East did not control any aspect of West's operations. 377 F. Supp. at 425. (App. p. 35.) It therefore refused to find any illegal horizontal allocation of territories and customers between competitors. *Ibid.* The district court did determine, however, that *Schwinn* was applicable to what it considered a vertical license arrangement, but limited its discussion and findings to the recordkeeping book business only. As to the recordkeeping books, the court concluded that East was West's agent and therefore could be restricted. It did not specify why the restraints were reasonable, other than simply to conclude that they were. 377 F. Supp. at 426. (App. p. 38.) The district court did not address the issue of the restraints on business management services or seminars.

The court also found that the recordkeeping books in which the blank accounting forms appeared contained instructional material and therefore the forms were copyrightable. *Id.* at 428. (App. pp. 40-41.)

West was awarded a verdict against East of $586,-721.51 on its breach of contract claims and a permanent injunction prohibiting East from using the "Williams" trade name.[5]

East appealed. In an opinion filed August 31, 1976, the Ninth Circuit rejected that appeal, holding that even though East was a potential competitor of West, it was lawful for East to exchange its right to compete under any name for a trade name license which allocated and restricted its territory and customers.

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[5]A $6,212 judgment for infringement of the BP recordkeeping book was entered against Marcoin. On West's cross-appeal, the Ninth Circuit extended the judgment against East to Marcoin on an alter ego theory.

It held that such a license did not offend *Schwinn* because that decision was not applicable to service industries, such as business management services and seminars, or to a trade name license. No determination as to the reasonableness of any of these restraints was made, other than the conclusion that the prohibition of competition on seminars was an acceptable "ancillary restraint" to the horizontal division of territories and customers to protect West's trade names and copyrights because it would have been "awkward and confusing for West and East to have competed in seminars at the same time they were in a licensing and agency arrangement in closely related activities." 542 F.2d at 1061. (App. pp. 16-17.) The Ninth Circuit did not address whether the prohibition on interbrand competition resulted in an improper foreclosure of competition and did not make any attempt to test the restriction under its then recently decided holding in *GTE Sylvania Inc. v. Continental T.V., Inc.*, 537 F.2d 980 (1976), *cert. granted*, 45 U.S.L.W. 3299 (October 18, 1976). The Ninth Circuit also agreed with the district court's finding that the recordkeeping books conveyed information and the forms were therefore subject to copyright. *Ibid.* (App. p. 16.)

Petitioners' request for rehearing or rehearing en banc was denied November 17, 1976.

REASONS FOR GRANTING THE WRIT.

The decision below squarely presents two issues of antitrust law to the Court: (1) the applicability of the prohibitions on vertical restraints set forth in *United States v. Arnold, Schwinn & Co.*, 388 U.S. 365 (1967), and *Standard Oil Co. of Calif. v. United States*, 337 U.S. 293 (1949), ("Standard Stations") to the burgeoning service industries in this country; and (2) the continued vitality of the Court's decisions in *Timken Roller Bearing Co. v. United States*, 341 U.S. 593 (1951); *United States v. Sealy, Inc.*, 388 U.S. 350 (1967); and *United States v. Topco Associates*, 405 U.S. 596 (1972), to prevent horizontal allocations of territories and customers under the guise of trade name licenses. The decision below broadly holds, without limiting factual qualifications, that the prohibitions of *Schwinn* and *Standard Stations* are not applicable to services or trade name licenses and that potential competitors may exchange their right to compete for a trade name license. The decision cannot be reconciled with precedent or with the purposes of the antitrust laws; it must be reviewed and reversed.

The decision also presents an important question of copyright law: whether blank accounting forms can be made copyrightable by including them in a work containing instructional material. Petitioners submit the answer must be no, given this Court's long-standing ruling in *Baker v. Selden*, 101 U.S. 99 (1880).

I.

THE COURT BELOW ERRONEOUSLY HELD THAT THIS COURT'S LIMITATIONS ON VERTICALLY IMPOSED RESTRAINTS ON COMPETITION ARE NOT APPLICABLE TO SERVICE INDUSTRIES OR TRADE NAME LICENSES.

A. The Court Below Erroneously Held the Restraints on Competition Prohibited in United States v. Arnold, Schwinn & Co., 388 U.S. 365 (1967), Are Not Applicable to Service Industries or Trade Name Licenses.

1. The Rationalization of the Decision Below for Distinguishing Schwinn Makes No Sense Economically and Erroneously Relies on the Existence of a Trade Name License, a Fact Which Was Present but Deemed Irrelevant in Schwinn.

In its landmark decision in *United States v. Arnold, Schwinn & Co., supra,* this Court set forth its rule prohibiting manufacturers from restricting the resale activities of distributors once "risk, title and dominion" had passed from the manufacturer. 388 U.S. at 379. Even when the goods were sold on consignment, the restrictions were *per se* unlawful if imposed by a dominant manufacturer or were part of a price fixing scheme, and were, in any event, subject to scrutiny under the "rule of reason." *Id.* at 381.

Twice in the last eight months, the Ninth Circuit has challenged the teaching of *Schwinn.* In *GTE Sylvania Inc. v. Continental T.V., Inc.,* 537 F.2d 980 (9th Cir.) *cert. granted,* 45 U.S.L.W. 3299 (October 19, 1976), the Ninth Circuit fashioned a narrow exception from the *Schwinn per se* rule for "location clauses" that: (1) restricted only intrabrand competition on the products of a non-dominant manufacturer; and (2) did not restrain sales to any customer, provided

they were made at those locations.[6] Nonetheless, this Court has granted a writ of certiorari.

If the Court is sufficiently concerned about *Schwinn* to hear argument in *GTE Sylvania,* it is even more imperative to address the issues presented here.

The decision below presents a far broader and more significant challenge to *Schwinn.* It creates a sweeping exemption for the quickly-growing service industries, validating blatantly anticompetitive, absolute allocations of territories and customers for purposes of *intrabrand* competition and extending that exemption to restraints forbidding *interbrand* competition as well.[7] 542 F.2d at 1061-62. (App. pp. 16-18.) Without citation of authority or analysis of any economic rationale for its holding, the opinion merely states that *Schwinn's* "concepts of 'title, dominion and risk' [do not] apply to services like the bookkeeping service and the seminars." *Id.* at 1062. (App. p. 18.) Because a trade name licensor retains "title" to the name and some dominion and risk over his reputation, neither the *per se* nor the "rule of reason" tests of *Schwinn,* nor for that matter any scrutiny of concededly restrictive practices, is deemed necessary.[8]

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[6]*See* p. 23, n. 14, *infra,* for a comparison of the extremely limited nature of the restraint in *GTE Sylvania* and the broad restraints at issue here.

[7]There is no factual dispute between the parties that the restraints are absolute. West responded to an interrogatory by admitting that the Revised Agreement "on its face divide[d] territories and customers" between the two companies, but purported to justify the division because it was allegedly vertically imposed or incident to a copyright. (Answer to Interrogatory No. 82; RT 4169.) See also testimony of West's vice-president, Mr. Hamilton, App. pp. 45-46.

[8]The district court concluded the total prohibitions on intrabrand and interbrand competition were "reasonable," but limited

(This footnote is continued on next page)

Neither the fact that the Revised Agreement involved service businesses nor that it was a trade name license is sufficient ground to reject *Schwinn*.

The Schwinn dealers were themselves trade name licensees, but the Court in *Schwinn* was not at all influenced by the existence of such a trade name license in rendering its decision. Distributors are in fact often trade name licensees, *Ungar v. Dunkin Donuts of America, Inc.*, 531 F.2d 1211, 1223 (3d Cir.), *cert. denied*, 45 U.S.L.W. 3250 (October 4, 1976), as is the case for instance in *GTE Sylvania*. Nonetheless, the Ninth Circuit in this case made no attempt to reconcile or explain its decision below with its earlier decision in *GTE Sylvania* or with *Schwinn*.

Nor does the opinion respect the pre-*Schwinn* holding of *White Motor Co. v. United States*, 372 U.S. 253 (1963), that, at a minimum, the economic justification of any such sweeping, anticompetitive prohibition be subjected to careful scrutiny. There is simply no suggestion why the competition in the sale of *goods* encouraged by *Schwinn* is not equally justified for *services*. The result of this decision will be to leave the independent franchisee who provides a *service* subject to all sorts of territorial and customer restraints, while the franchisee or distributor of *goods* will be protected by the rule of this Court.[9] More importantly, cus-

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that conclusion to books and made no findings in support of even that conclusion. 377 F. Supp. at 426. (App. p. 38.) The decision of the Ninth Circuit is more sweeping because it takes the position that neither the *per se* nor "reasonableness" tests, nor any other test, is necessary in the service or trade name license context. 542 F.2d at 1062. (App. p. 18.)

[9]This Court has often recognized the importance of the independence of retailers and distributors to act for themselves. *See Simpson v. Union Oil Co.*, 377 U.S. 13, 21 (1964).

tomers of distributors of *services* will be confronted with markets characterized by significantly greater vertical restraints than customers in markets for *goods* and consequently will face the likelihood of higher prices without any offsetting benefit.

There is no rational economic justification for this different treatment. Nor are any rationalizations offered for the distinction. None could be. The allocation of territories between East and West increased prices and cut down consumer choice, without any offsetting procompetitive benefit.

The case is a significant opportunity to clarify *Schwinn* and its application to the service sector of the economy or trade name licenses.[10] The clearly anti-competitive effect of the restraints in this case establishes that this Court should not distinguish between goods and services, and that the imposition of vertical restraints in the service sector of the economy is as pernicious as in the goods sector. Given this record, the case is an appropriate vehicle for the Court to announce the guiding rule of law applicable to service industries and trade name licenses.

2. The Decision Below Creates a Conflict in the Circuits.

The decision below expressly holding *Schwinn* not applicable to services creates a direct conflict with

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In his dissent in *GTE Sylvania*, Judge Browning recognized this very point. 537 F.2d at 1019-22. However, any such considerations were totally, and inexplicably, ignored here.

[10]The antitrust considerations involved in counseling businessmen will undoubtedly change as a result of the decision below. In the service industries, one may now ignore assessing whether less restrictive restraints, such as primary responsibility clauses or profit passovers, will achieve legitimate competitive goals, and instead go directly to the imposition of absolute prohibitions. All of this will be in direct contrast to the approach required in the goods industries. *See, e.g., Continental T.V., Inc. v. GTE Sylvania, Inc., supra*, 537 F.2d at 995 n. 25.

the Fifth Circuit decision in *Response of Carolina, Inc. v. Leasco Response, Inc.*, 1976-2 CCH Trade Cases ¶ 61045 (5th Cir., filed September 2, 1976). There, the court held that the extraordinarily high profit passover provisions for sales outside the designated territory of a franchisee of a computer time sharing service had to be tested under the rules of *Schwinn*. A provision for such passovers in the franchise agreement, which in effect prohibited such sales, was deemed to be an illegal territorial restriction on the franchisee. The decision clearly accepts the applicability of *Schwinn* to its facts, which involve both a service industry and trade name license. It is directly in conflict with the Ninth Circuit's holding below.[11]

B. The Court Below Erroneously Failed to Apply Standard Oil Co. of Calif. v. United States, 377 U.S. 293 (1949), and Approved a Vertically Imposed Restraint Which Substantially Foreclosed Interbrand Competition.

1. The Revised Agreement's Exclusive Dealing Requirement Substantially Foreclosed Competition.

The opinion below and the district court both ignore *Standard Oil Co. of Calif. v. United States, supra* ("Standard Stations"), which held that exclusive dealing arrangements which substantially foreclosed interbrand competition in goods constituted an unlawful restraint under § 3 of the Clayton Act. (15 U.S.C. § 14.) *See*

[11]There is also an indirect conflict with the Third Circuit's decision in *American Motor Inns, Inc. v. Holiday Inns, Inc.*, 521 F.2d 1230, 1243 (3d Cir. 1975), in which *Schwinn* was deemed relevant in assessing Holiday Inns' restraints on its licensees in a service industry (hotels) although the decision does not rely on a *Schwinn* analysis for its holding. *See also Sulmeyer v. Seven-Up Co.*, 411 F. Supp. 635, 642 (S.D.N.Y. 1976).

also, Tampa Electric Co. v. Nashville Coal Co., 365 U.S. 320 (1961); *Mytinger & Casselberry, Inc. v. FTC*, 301 F.2d 534 (D.C. Cir. 1962). Although no goods were involved here, East argued that the Revised Agreement foreclosed such a significant amount of competition under the *Standard Stations* analysis that it constituted a violation of § 1 of the Sherman Act. *See International Boxing Club, Inc. v. United States*, 358 U.S. 242 (1959).

As noted above, the Revised Agreement prohibited East from marketing any goods or services to the retail petroleum industry in any locality under any trade name other than "Williams," and from using the "Williams" trade name in the western half of the United States.[12] The effect of that arrangement was to foreclose East or any third party using East and its network of licensees from marketing anything that might compete with West in any manner whatsoever. Although it was difficult for petitioner to establish the exact percentage of the market held by either East or West in order to demonstrate the degree of foreclosure, it was established at trial that they were dominant factors in the markets they served; and that East and its licensees represented the only large marketing organization in the United States other than West that provided specialized services to the retail petroleum industry. (*E.g.*, RT 2719-23; 4504-13; DX 2359-A.) East's importance as West's only real competitor was conclusively demonstrated by the fact that as soon as the companies began to compete, that competition caused the first significant price reduction ever offered by either company. (RT 536-38; 588-93.)

[12]See p. 17, n. 7, *supra*.

The result of the prohibition of the Revised Agreement on interbrand competition was clearly foreclosure of, and an actual restraint on, competition and illegal under the *Standard Stations* analysis.

2. The Refusal of the Courts Below to Analyze the Exclusive Dealing Provision Under Standard Stations Creates a Conflict in the Circuits.

The opinion below directly conflicts with the decision of the Third Circuit in *American Motor Inns, Inc. v. Holiday Inns, Inc.*, 521 F.2d 1230, 1250-52 (1975). There, Holiday Inns prohibited any of its licensees from competing with it under any other trade name in designated cities where Holiday Inns operated its own hotels. Although, as here, a service industry was involved so that § 3 of the Clayton Act was not directly applicable, the Third Circuit held that an analysis similar to *Tampa Electric* and *Standard Stations* was appropriate to ascertain if there had been an actual restraint of trade in violation of § 1 of the Sherman Act, and remanded the issue to the district court for that analysis. *Id.* at 1255.

The opinion below, on the other hand, simply ignores petitioner's contention that an analysis similar to the one the Third Circuit applied in *American Motor Inns* was required. Again, no justification for refusing to undertake the analysis is even offered. As a result, the decision of the Ninth Circuit, on its face, validates restrictions on interbrand competition between the only effective competitors in a marketplace, contrary to both *Standard Stations* and *American Motor Inns.*

C. This Case Should Be Consolidated for Oral Argument With GTE Sylvania Inc. v. Continental T.V., Inc. (No. 76-15).

The effect of the decision below is to create substantial uncertainty about the limits on vertical restraints which may be imposed in a service industry or trade name license situation.

The untenable position in which businessmen are thus placed is evident from this very case. Petitioners believed the Revised Agreement violated the antitrust laws and exposed them to the risk of lawsuits from private parties or the government. They repudiated that Revised Agreement only to find they were then subject to an equally large damage judgment for breach of contract.[13]

Now, the risk is reversed. Hitherto unlawful behavior under *Schwinn* or *Standard Stations* appears now to be approved for service industries or trade name licensors in the Ninth Circuit without even the close "rule of reason" approach adopted in *GTE Sylvania.*[14]

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[13]It may be that the decisions below were motivated by the courts' view that East was using the antitrust laws to avoid a contract which the courts believed East had voluntarily entered and from which it had received substantial benefit. *See, e.g.*, 377 F. Supp. at 429 (App. p. 43.) However, such an animus toward East creates bad policy and bad law. To the extent an agreement violates the antitrust laws exposing a party, such as East, to liability, East ought not to be penalized for its procompetitive action in terminating the unlawful agreement. *Kelly v. Kosuga*, 358 U.S. 516, 521 (1959). Indeed, this Court has held that voluntary entry into an illegal agreement may not bar one of the parties from repudiating it and suing under the antitrust laws for treble damages. *Perma Life Mufflers, Inc. v. International Parts Corp.*, 392 U.S. 134 (1968).

[14]In *GTE Sylvania*, the Ninth Circuit found all the following factors mitigated against the *Schwinn per se* approach for the location clauses at issue:

(This footnote is continued on next page)

This result conflicts with the Third and Fifth Circuit's decisions in *American Motor Inns* and *Response of Carolina, Inc.*, and petitioners submit it will ultimately be disapproved by this Court because of the clearly anticompetitive result such restrictions entail. The Court must restore some rule of law that will make predictable and understandable the rights of trade name licensees and service franchisees, whether based on *Schwinn, Standard Stations* or otherwise.[15]

There is a strong need for guidance regarding *Schwinn* in the area of services. A decision by this Court in this case may well control the Ninth Circuit's

1. GTE Sylvania was not a dominant manufacturer, and on the contrary needed a new sales approach to replace its deteriorated market share.

2. The "elbow room" approach it adopted did not include the grant of exclusive distributorships and in most cases there was more than one Sylvania dealer in a market.

3. The franchised dealer could sell at its franchised locations to any customer, wherever located.

4. The franchised dealer could handle competing lines.

5. The limited restraint would result in increasing interbrand competition. 537 F.2d at 982-84; 988-96.

Here the facts are virtually the reverse, with all the evidence pointing to invalidating the restraints at issue if the *GTE Sylvania* analysis were employed. Instead the restraints have been justified notwithstanding the following facts:

1. The two companies, East and West, are dominant in their three separate lines of business.

2. The Revised Agreement absolutely divided customers and territories between the parties.

3. East was prohibited from any interbrand competition and could not even market new products related to the retail petroleum industry, like seminars, outside its territory or under any name other than "Williams."

[15]Noted commentators, including the present Assistant Attorney General in charge of the Antitrust Division, believe that the basis for the *Schwinn* decision should be clarified and the scope of the resulting rule made uniform for goods and services. Baker, *Vertical Restraints in Times of Change; from White to Schwinn to Where,* 44 Antitrust L.J. 537, 538 (1975).

decision in *GTE Sylvania,* while the converse is not necessarily true. Therefore, the petition for writ of certiorari should be granted, and the cases consolidated for purposes of oral argument.[16]

II.

THE COURT BELOW ERRED IN FAILING TO HOLD THAT THE ALLOCATION OF TERRITORIES AND CUSTOMERS PURSUANT TO A TRADE NAME LICENSE WAS A HORIZONTAL RESTRICTION ILLEGAL PER SE.

A. The Decision Below Directly Conflicts With This Court's Decisions in Timken, Sealy and Topco.

This Court has held it is illegal *per se* for competitors or potential competitors horizontally to divide territories or customers, even if the arrangement is cast as a trade name license. *Timken Roller Bearing Co. v. United States,* 341 U.S. 593, 598-99 (1951). *See also, United States v. Topco Associates,* 405 U.S. 596 (1972); *United States v. Sealy, Inc.,* 388 U.S. 350 (1967); *American Motor Inns, Inc. v. Holiday Inns, Inc., supra,* 521 F.2d at 1253-54 (licensor at same functional level of market as licensee cannot restrict territories or customers); *Hobart Bros. Co. v. Malcolm. T. Gilliland, Inc.,* 471 F.2d 894, 899 (5th Cir.), *cert. denied,* 412 U.S. 923 (1973) (same); *Interphoto Corporation v. Minolta Corporation,* 295 F. Supp. 711 (S.D.N.Y.), *aff'd per curiam* 417 F.2d 621 (1969) (same). *Cf. United States v. McKesson & Robbins,* 351 U.S. 305 (1956); *Fontana Aviation, Inc. v. Beech Aircraft Corp.,* 432 F.2d 1080, 1081-82, 1085 (7th Cir. 1970), *cert. denied,* 401 U.S. 923 (1971).

[16]At a minimum, this petition should be held pending decision in *GTE Sylvania.*

Competitors or potential competitors are those who have the capability to enter the market for the same customer with the same or similar goods or services. *See, e.g., United States v. Falstaff Brewing Corp.*, 410 U.S. 526, 533 (1973); *White Motor Co. v. United States, supra,* 372 U.S. at 272-73 (Brennan, J., concurring); *United States v. Jos. Schlitz Brewing Company,* 253 F. Supp. 129, 147 (N.D.Cal. 1966), *aff'd per curiam,* 385 U.S. 37 (1966). Under that test, East and West were competitors but for the Revised Agreement. The Ninth Circuit opinion concedes that fact. 542 F.2d at 1061. App. pp. 16-17. East and West were of relatively equal size, resources and expertise. They served the same classes of customers with the same type of goods and services, but in separate, allocated territories. East's capability was further emphasized by its creation of the concept of seminars, which it developed independently of West. In fact, as soon as the Revised Agreement was repudiated, each entered the other's territory and competed vigorously for each other's customers in all three lines of business.

Therefore, this Court's decision in *Timken* is virtually on all fours and is dispositive.[17] The Ninth Circuit ignored *Timken,* making no effort to explain why it was not controlling. There is no rationale presented whatsoever as to why the two cases are distinguishable. On the contrary, the Ninth Circuit's only relevant statement, that the right to compete may be exchanged for a trade name license, is directly in conflict with *Timken,* in which the allocating companies were all

[17]On this ground alone, certiorari should be granted and the decision below summarily reversed.

trade name licensees.[18] To allow the decision to stand is to raise doubts about the vitality of *Timken,* and to permit the case law to lapse into an exercise where the form of a trade name license prevails over the substance of a *per se* violation.

B. The Decision Below Conflicts With the Decisions of Three Other Circuits.

The Ninth Circuit's approval of an agreement between entities that were potential competitors to divide and allocate territories creates a direct conflict with three other decisions of the courts of appeal. As noted above, the Third Circuit in *American Motor Inns, supra,* rejected as a horizontal allocation a scheme of defendant Holiday Inns under which it assigned to itself certain cities for the operation of hotels and

[18]The decision below raises the justification of the ancillary restraint doctrine but only for seminars. 542 F.2d at 1061. (App. p. 17.) It does not justify the restrictions on business management services or books on that ground. Even for seminars, the rationale is erroneous. The allocation of territories and customers with regard to seminars is deemed an acceptable ancillary restraint to the protection of trade names and copyrights because it would have been "awkward and confusing for West and East to have competed in seminars at the same time they were in a licensing and agency arrangement in closely related activities." *Ibid.* That justification, "to prevent awkwardness and confusion," makes no sense in light of East's original attempt to market the seminars under another name. If anything was confusing and awkward about the arrangement—certainly to the national oil company customers who, after the Revised Agreement was effective, unsuccessfully tried to have East give its seminars in West's territory—it was the marketing under a single trade name of two entirely different seminars with an absolute and arbitrary territorial and customer division between the two companies. (*See* RT 3116-3126; DX 1634-1635, DX 2425.) Only if the antitrust laws were to permit, as the Ninth Circuit wrongly held below, West to prevent East from selling under other trade names, would the "confusion" issue arise. Because such "exclusivity" is itself illegal, there can be no lawful "ancillary restraint."

prohibited its licensees from competing with it there under any trade name. 521 F.2d at 1253-54.[19] The Fifth Circuit similarly prohibited one manufacturer from barring its licensee-distributor (which was also a manufacturer) from competing with it. *Hobart Bros. Co. v. Malcolm T. Gilliland, supra,* 471 F.2d at 899. And the Second Circuit has refused to permit a manufacturer to reserve to itself certain wholesale customers which could also have been customers of its licensee-distributor. *Interphoto Corp. v. Minolta Corp., supra,* 417 F.2d at 621. Each of these cases held a trade name license could not validate an otherwise unlawful horizontal market division between two entities who could compete for the same customers. The Ninth Circuit's decision is directly in conflict. It creates uncertainty where there must be clarity. It validates far-reaching customer and territorial restraints where no justification has previously been deemed acceptable. It should not be allowed to stand.

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[19]In this case, the district court concluded that a key element in ascertaining whether there was a horizontal allocation (as distinguished from a vertical one) centered on whether the licensee in any way controlled the licensor. 377 F. Supp. at 425. (App. p. 35.) That same issue was raised in *American Motor Inns* and rejected. 521 F.2d at 1243. Therefore, the *American Motor Inns* decision and the district court decision conflict on the relevant test for horizontality.

It should also be pointed out this case goes far beyond the restrictive scheme of Holiday Inns. Here, East could not even develop a new product, such as seminars, and market them in West's territory. An equivalent would have been to prohibit American Motor Inns from developing anything new in the tourist business, for instance, amusement parks, and putting them in Holiday Inns' own territory.

III.

THE COURT ERRONEOUSLY ALLOWED RESPONDENTS TO COPYRIGHT BLANK ACCOUNTING FORMS CONTRARY TO BAKER V. SELDEN, 101 U.S. 99 (1880).

West has obtained copyright certificates on over 100 accounting books since 1935. The accounting books consist of a cover designed by the oil company customer, printed instructions for use of the accounting forms, and the blank forms themselves (there are 31 identical blank forms each of which is used to record information on a daily basis). Petitioners contended that the copyrights on the blank forms in these books were invalid because blank accounting forms are not subject to copyright, relying on *Baker v. Selden,* 101 U.S. 99 (1880), the seminal decision, and regulations of the United States copyright office, 37 C.F.R. § 202.1.[20] Both the district court and the court of appeals held that the blank forms in West's books were properly the subject matter of copyright because they were part of books that contained instructions on how to use these forms and thus conveyed information. 377 F. Supp. at 428, 542 F.2d at 1061. (App. pp. 15-16; 41.)[21]

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[20]*See* pp. 7-8, *supra.*

[21]The district court found that Marcoin had infringed West's BP book, including the instructions and, apparently, the cover as well. 377 F.Supp. at 428. (App. p. 41.) The Ninth Circuit agreed. 542 F.2d at 1060-61. (App. pp. 15-16.) Both rulings are clearly erroneous. The blank forms are not copyrightable. As to the balance of the book, West's own expert witness testified Marcoin's BP instructions were not "substantially similar" (RT 922-23), as a comparison of the two confirms, *compare* P-449 *with* P-450; and the cover was designed and required by BP itself, as the District Court noted. 377 F. Supp. at 428. (App. p. 40.) (See Sheffield Dep., p. 41; RT 2920.) The rulings of both the district court and the Ninth Circuit clearly turn on their erroneous view that inclusion of forms with text materials avoids *Baker v. Selden.*

The court's ruling with respect to the blank forms raises an important question of copyright law which has been much debated over the years, namely the continued vitality of this Court's ruling in *Baker v. Selden*. Petitioners submit that the present case illustrates the wisdom of the original *Baker v. Selden* decision and that the Ninth Circuit's avoidance of that decision by the characterization of the forms as part of an integrated work allows the direst predictions of the Court in *Baker v. Selden* to come true. The effect of allowing West to copyright the blank forms is to allow West in fact to copyright and monopolize a *system* of accounting, the very thing *Baker v. Selden* held improper under the copyright laws.[22]

In *Baker v. Selden* copyright protection had been sought for "Selden's Condensed Ledger, or Book-keeping Simplified." The work explained a new "system" of bookkeeping. The forms permitted operations of a day, week, or month to be reported on one or two pages. The Court in holding that "blank account-books are not the subject of copyright," 101 U.S. at 107, articulated two rationales: (1) The Copyright Act does not permit the copying of a "system" because the act is designed to protect the expression of ideas and not the ideas themselves.[23] Thus, to the extent

[22]The district court in fact characterized Marcoin as having "used plaintiff's *system*. . . ." 377 F.Supp. 428, App. p. 41. (Emphasis added.) *Cf. Dann v. Johnston*, ... U.S. ....., 47 L.Ed.2d 692 (1976), where the Court rejected a similar attempt to monopolize a system of accounting under the patent laws.

[23]This distinction has been reaffirmed in the recently enacted revision of the Copyrights Act, P.L. 94-553, 90 Stat. 2541, 17 U.S.C. § 101, *et seq.* (Oct. 19, 1976). Section 102(b) provides:

> "(b) In no case does copyright protection for an original work of authorship extend to any idea, procedure, process, system, method of operation, concept, principle, or discovery, regardless of the form in which it is described, explained, illustrated, or embodied in such work."

The legislative history states that "Section 102(b) in no way enlarges or contracts the scope of copyright protection under the present law. Its purpose is to restate, in the context of the new single Federal system of copyright, that the basic dichotomy between expression and idea remains unchanged." H.R. Rep. No. 1476, 94th Cong., 2d Sess. 57, *reprinted in* [1976] U.S. Code Cong. & Ad. News 6089, 6100.

that permitting the copyrighting of forms would permit the copyrighting of the system itself (in *Selden* an accounting system), such copyrights are forbidden. (2) The Copyrights Act does not permit copyrighting of works for "use" (*i.e.*, for recording information) as opposed to works explaining or conveying information. Thus, the Court held, Selden's blank forms were not copyrightable even though they were included in a book with instructions on how to use the forms. 101 U.S. at 100-101.

The instant case is not distinguishable from *Baker v. Selden* and, if the court's ruling below is allowed to stand, West will have effectively been allowed to copyright an "accounting system." The record establishes the following: (1) The shape of the forms and the positioning of boxes on them is largely dictated by the daily operations of service stations or by procedures used by bookkeepers to take information efficiently from forms in order to compile data. (2) Forms are often changed to reflect experience with the forms by service stations or changes in operating procedures of service stations. (3) Once an oil company purchases a particular form, it invests substantially in preparing training and promotional materials based on the form and is then disinclined to see the form changed in any way. (4) The parties habitually and regularly refer to the accounting books as a "system of account-

ing." Because there are only a very limited number of ways to express the same idea, so closely are those ideas tied to the functioning of service station, bookkeeping, and oil company operations, the copyright on the forms copyrights the system.

Each of West's 100 or so copyrighted forms is subtly different, and there may be literally thousands of *de minimis* permutations of boxes, squares, lines, and other bits and pieces on which West bases its claim of copyright. Petitioners and others wanting to print such forms will be faced with a barrage of infringement suits from West, and the courts will spend an enormous amount of time trying to decide which combination of lines and boxes do not infringe thousands of "copyrighted" combinations West will dredge up from its store of "copyrighted" forms. The ultimate result may be that others will not find it economical to compete with West's books, and West will effectively have obtained a copyright and monopoly on the *idea* of a gasoline service station recordkeeping form.[24]

Petitioners urge that this Court grant certiorari and clarify the principles of *Baker v. Selden* before West, and others like West in other fields, are permitted to monopolize ideas and systems contrary to the purpose and intent of the copyright laws.

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[24]Petitioners urge that the Court, in order to appreciate fully the impact of the court's decision, call for the record below and examine the many accounting books entered in the record. Xeroxed copies of a few books do not give the same impression as spreading out West's many books on a desk and trying to differentiate between the blank accounting forms contained in the respective books. (*See, e.g.*, DX 580-602.)

CONCLUSION.

For the foregoing reasons, a writ of certiorari to the Court of Appeals for the Ninth Circuit should be granted.

Respectfully submitted,

RAYMOND C. FISHER,
Counsel for Petitioners.

TUTTLE & TAYLOR INCORPORATED,
HAROLD J. KWALWASSER,
Of Counsel.

December 30, 1976.

APPENDIX.

Opinion of the Court of Appeals.

Edwin K. Williams & Co., Inc., a California Corporation, Plaintiff-Appellee and Cross-Appellant, v. Edwin K. Williams & Co.-East, a Virginia Corporation, and Marcoin, Inc., a Virginia Corporation, Defendants-Appellants.

Edwin K. Williams & Co.-East, Inc., Plaintiff on the Counterclaims-Appellant, v. Edwin K. Williams & Co., Inc., Defendant on the Counterclaims-Appellee, and Kemp Printing Co. and Mrs. E. K. Williams, Additional Defendants on the Counterclaims-Appellees.
Nos. 74-2449, 74-1998.

United States Court of Appeals, Ninth Circuit.

Aug. 31, 1976.

Rehearing and Rehearing En Banc Denied Nov. 17, 1976.

Before WRIGHT and CHOY, Circuit Judges, and SOLOMON, District Judge.*

SOLOMON, Judge.

Defendants appeal from judgments for $586,781.51 and $6,212.00 in favor of the plaintiff based on breach of contract and copyright infringement.[1] The plaintiff cross-appeals.

Defendants, appellants here, are Edwin K. Williams & Co.-East (East) and Marcoin, Inc., two Virginia corporations. East is the wholly-owned subsidiary of Marcoin.

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*Honorable Gus J. Solomon, Senior United States District Judge for the District of Oregon, sitting by designation.

[1]The trial court's opinion is reported at 377 F.Supp. 418.

Plaintiff, appellee here, is Edwin K. Williams & Co., Inc. (West), a California corporation. Mrs. E. K. Williams, president of West, and Kemp Printing Co. (Kemp), West's printing affiliate, are defendants on the counterclaims.

Beginning in 1935, Edwin K. Williams designed and sold record-keeping books to gasoline service station dealers in California. He also showed the dealers how to keep their books.

In 1946, Williams and Fred G. Harris formed Edwin K. Williams & Co. Williams owned 75 per cent[2] and Harris owned 25 per cent. Williams and Harris formed a subsidiary of Edwin K. Williams & Co. called "Serv-A-Station" to provide a bookkeeping service to gasoline service station dealers. Harris became president of Serv-A-Station.[3]

In 1949, Williams bought Harris's interest for $10,-000, payable at $100 a month. Thereafter, for a short time Harris provided bookkeeping and counseling services to a few stations around Los Angeles. He then joined the Navy, and served in Washington, D. C., during the Korean War.

In July 1952, when Williams still owed Harris $5,-300, they entered into an agreement (the 1952 Agreement). Harris's attorney drafted this 1952 Agreement, which was the predecessor of the agreement at issue in this action. The draftsmanship of the 1952 Agreement was not a model of clarity. The district court

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[2]For a short time, one other person owned a five per cent interest which Williams acquired.

[3]The bookkeeping service eventually became a management consultant service. Although West and East later called this activity "business management services" or "BMS", it remained essentially a bookkeeping service.

characterized the relationship created by the agreement as a license.

In the agreement, Harris was the "First Party", and Williams, West, and Serv-A-Station were the "Second Party". The agreement recited that:

> ". . . Second Party does hereby grant, bargain and sell unto First Party the exclusive right, title and interest to sell, market and promote all book-keeping systems, forms, books and methods under said names [including 'Williams'], which now are used . . . or which hereafter are developed by Second Party . . . for all states east of the Mississippi River [with details and exceptions] . . . and thence north through Canada. . . ."

The 1952 Agreement gave Harris the right to set up licensees on the bookkeeping service, ". . . the same as is being done by Serv-A-Station, Inc. on the west coast." Harris was to give Williams 30 per cent of all revenues from the bookkeeping service, except for licensing fees, which Harris was to retain.

Harris's book customers were to send their orders and payments to West in California, and Harris would receive a 30 per cent commission less freight.

Williams conveyed to Harris all his "accounts, goodwill and contracts" in the eastern territory, and Harris agreed to use his best efforts to develop the territory. The agreement characterized Harris in various ways—as an "independent proprietor", as an "independent contractor" in the eastern territory, and as "the exclusive proprietor and sales organizer for the territory".

The 1952 Agreement did not provide for any controls on Harris's use of the rights he acquired. It set no time limit on that use, nor did it specify the conse-

quences of misuse. There was no provision in the contract which gave West any rights in the eastern territory.

This 1952 Agreement, with modifications,[4] served until 1968. Williams licensed other regional representatives in the Northwest (1953), South Central (1955), North Central (1959), and Rocky Mountain territories (1961). Williams himself was responsible for the Southwest, and Harris was responsible for the East. In 1963, when Williams died, his widow, Mrs. E. K. Williams, became president of West.

Although Williams and Harris prospered under the 1952 Agreement, their relations were not cordial. The district court noted, ". . . the sublimated rivalry between Williams and Harris and the determination of each to maintain a posture of superiority over the other. Needless to say, there were many business disputes. . . ." 377 F.Supp. at 421. This rivalry continued after Mrs. Williams took over West.

Both West and East took orders for West's record-keeping books, and both provided bookkeeping services. Beginning in 1966, East also presented seminars for oil company employees and gasoline service station dealers.

In 1968, Harris attempted to hold a seminar in California, outside the eastern territory. West objected and filed an action in the United States District Court for the Northern District of California. West alleged tradename and copyright infringement and claimed unpaid credits from East. West and East negotiated a settlement, which included a "Revised Agreement" to replace the 1952 Agreement.

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[4]For example, in 1956 Harris reconveyed his interest in the Canadian territory to Williams in return for Louisiana.

The 1968 Revised Agreement is the basis for this action and is the contract which West charges that East breached.

The 1968 Revised Agreement terminated and superseded the 1952 Agreement. Each party abandoned all prior rights under the 1952 Agreement and its modifications. California law was to govern.

The Revised Agreement provided for a transfer of rights:

> "Subject to the terms hereof, Williams [West] irrevocably grants in perpetuity to Williams-East exclusive rights to the Operation [elsewhere defined to 'include all of the activities of Williams, territorial rights to which were heretofore granted to Williams-East and which are confirmed in this Revised Agreement . . .'] in the [eastern] Territory, said rights to include an exclusive license within the Territory to all present and future copyrighted material to which Williams is the proprietor."

East was required to use the Williams name in the eastern territory for all its activities within the petroleum marketing industry. If East went into business outside that industry, it was required to use a name other than Williams.

West and East agreed to cooperate and to promote business and goodwill for each other, to exchange copyrights freely, and not to contest each other's copyrights.

West and East also agreed to include seminars within the territorial restrictions. Although in 1968 West did not offer seminars, the Revised Agreement provided

that each could inspect the other's seminar materials. Each was entitled to be present if the other called on the headquarters of an oil company located in the first's territory.

Nevertheless, they asserted their mutual independence; they disclaimed a relationship of joint venture, partnership, or agency; and they provided for the termination of their relationship. If East failed to make any payment, West could terminate the Revised Agreement on 60 days' notice and all rights to the eastern territory would revert to West 120 days later. If East became bankrupt, West could terminate "forthwith".

The 1968 Revised Agreement provided for the continuance of the business of the parties as before, except that now East was required, not merely permitted, to use the Williams name in the eastern territory.

In book sales, West maintained representatives throughout the United States.[5] East was its representative only in the eastern part of the country. The representatives solicited book orders primarily from oil companies in their territories and forwarded the orders to West. Kemp, West's printing affiliate, printed the books and sent them directly to the oil companies. The representatives received commissions of one to seven per cent, except that East received a commission of 30 per cent less freight. Each service station dealer used about $20 in books a year.

Oftentimes oil companies, instead of buying the books directly, merely recommended them to their dealers, or guaranteed to West that a specified number of dealers would buy the books. All the representatives

[5]In both books and the bookkeeping service, West maintained an international operation not relevant to this action.

solicited these recommendations and guarantees. Their commissions were based on the number of books shipped to dealers in their territories.

The book-sales business remained essentially the same from its beginning in 1935, except that, in later years, more books were sold to oil companies and less were sold to dealers directly.

In the bookkeeping service, West maintained licensees throughout the United States. East was the licensee in the eastern territory. West's licensees visited service station dealers twice a month. On the first visit, the dealer turned over his records; and on the second, he received a detailed account of his profit and loss as well as his inventory. The dealer also received tax advice and general business counseling. The service cost $60 a month.

In the eastern territory, East offered the service through its own sublicensees and branch offices. The dealers paid East directly, and East passed on a 30 per cent commission to West. West's licensees in other territories paid West commissions of 30 to 60 per cent.

The bookkeeping service remained essentially the same, but in later years both the content and the techniques became more sophisticated.

The seminars were introduced by East in 1966. After the 1968 Revised Agreement was signed, West furnished seminars through a subsidiary, EKW Management Institute. West and East were not required to, nor did they, exchange money or materials on the seminars, but West contends that it occasionally referred requests for seminars in the eastern territory to East.

Each of the seminars lasted a few days and cost about $200 for each participant.

The three businesses were closely related. Dealers who used the bookkeeping service were encouraged, though not required, to use the Williams books. Oil companies which bought the books often encouraged their dealers to buy the bookkeeping service. The seminars of both West and East made use of the books and of information acquired while providing the bookkeeping service. The seminars showed dealers and oil company personnel how to use the books and the service to better advantage.

Both West and East used the interrelationship of the products and services as a sales point. They presented themselves as experts in record-keeping and financial counseling at all levels of the petroleum marketing industry.

In 1968 or 1969, the principal shareholders and officers of East formed Marcoin, Inc., to handle East's non-oil business.[6] Following a one-for-one stock transfer, Marcoin owned 100 per cent of East. Marcoin's officers and board of directors were substantially identical to East's.

By 1970, two years after they signed the Revised Agreement, West and East refused to account to each other. West filed an action in a California state court for a declaratory judgment interpreting the Revised Agreement and for specific performance, injunctive relief, and an accounting. It also sought damages for breach of contract and unfair competition.

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[6]Marcoin sold insurance to service station dealers, offered an escrow service, and temporarily operated stations which were being transferred from one franchisee to another.

East removed the case to the United States District Court for the Central District of California. In its amended answer, East contended that the Revised Agreement violated sections 1 and 2 of the Sherman Anti-Trust Act (15 U.S.C. §§ 1 and 2) because it:

> allocated territories and customers between actual or potential competitors;
>
> tied the territorial and customer restrictions on books to similar restrictions on the bookkeeping service and the seminars; and
>
> provided for price-fixing.

East also counterclaimed against West, Kemp Printing, and Mrs. Williams, alleging that:

> all of West's copyrights are invalid;
>
> West used the copyrights to monopolize and (with Kemp and Mrs. Williams) to conspire to monopolize;
>
> West used the copyrights as part of a tying arrangement with the bookkeeping service and the seminars; and
>
> East could and would compete with West but for the Revised Agreement.

Between April 1971 and January 1972, West and East conducted settlement negotiations, and during that time they stipulated to abide by their respective interpretations of the Revised Agreement.

In February 1972, shortly after the stipulation expired, East, without notifying West, repudiated the Revised Agreement. East printed several thousand record-keeping books for the BP oil company with the name "Williams Printing Company" displayed as

the printer. "Williams Printing Company", of Atlanta, Georgia, bore no relation to West.

After the repudiation, West and East each tried to retain their own licensees and to persuade the other's licensees to switch their allegiance. Each company acquired new licensees in the other's territory.

In June 1972, West filed a supplemental complaint which named East and Marcoin as defendants. West sought damages and injunctive relief for breach of the Revised Agreement, interference with contractual and business relations, copyright infringement on the BP record-keeping book, tradename infringement, unfair competition, and false designation of origin.

In its answer to the supplemental complaint, East[7] contended that West in 1952 sold its rights to the Williams name in the eastern territory, and if West had ever licensed the name to East, that license was abandoned when West failed to exercise sufficient control over the quality of the goods and services that East provided under the Williams name.

In November 1972, on West's motion, the district court preliminarily enjoined East and Marcoin from using the tradename Williams.

The case was tried to the court from January 2 to February 19, 1974. There were 18 witnesses, 16 depositions, and several thousand pages of exhibits. There are 3,659 pages of pleadings and 4,912 pages of testimony.

In its opinion, the court held that:

> West's copyrights were valid, and the copyright on the BP book was infringed;

[7]Hereafter, unless otherwise noted, "East" includes Marcoin.

> the restrictions of the Revised Agreement were ". . . reasonable steps taken to implement a valid copyright licensing system . . .";
>
> the 1952 and 1968 agreements were valid tradename licenses;
>
> there was no illegal tying;
>
> East and West were neither actual nor potential competitors; and
>
> East breached the Revised Agreement, infringed West's tradenames, and committed unfair competition.

The district court dismissed East's claim of interference with contractual relations and permanently enjoined East and Marcoin from using the tradename Williams, from representing that they were associated with Williams, and from infringing West's copyrights. The court entered judgment for $586,721.51 against East and $6,212.00 against Marcoin and East.

East and Marcoin appealed, asserting numerous errors. West cross-appealed, asserting that the judgment for $586,721.51 should run also against Marcoin.

The essential basis for East's appeal is that the district court erroneously characterized the relationship between East and West as that of a licensee and licensor in both tradenames and copyrights.

East contends that it was an actual or potential competitor of West.

The Tradename License

The 1952 Agreement did not convey all of West's interest in its tradenames. It conveyed only the limited right to use the names in the eastern territory in

sales of various products and services within the petroleum marketing industry for as long as East used its best efforts and complied with the provisions of the contract.

We agree with the district court that the words "grant, bargain, and sell" used in the 1952 Agreement, which are ordinarily associated with a sale, were used here to convey to East only the limited right to do business in the Eastern territory under West's tradenames. *See Jones v. Pepsi-Cola Co.*, 223 F.Supp. 650, 653 (D.Neb.1963).

Here, the parties intended to maintain an ongoing relationship when they executed the 1952 Agreement. East's concession that the 1968 Revised Agreement essentially renewed the terms of the 1952 Agreement supports the court's finding that the parties in 1952 intended to create a licensing relationship. One can renew a license but not a sale. If the parties had made a sale in 1952, there would have been no need to renew it in 1968.

The court properly found that the relationship between East and West was that of a tradename licensee and licensor.[8]

East next contends that even if the 1952 Agreement was a license, West misused its tradenames because it failed to exert sufficient control over East's performance of the bookkeeping service. A tradename licensor must maintain control over the quality of the finished product or service to guarantee to the public that the goods or services are of the same, prelicense quality. *Siegel v. Chicken Delight, Inc.*, 448 F.2d 43,

[8]In book sales, East does not dispute that it was West's agent.

51 (9th Cir. 1971), *cert. denied*, 405 U.S. 955, 92 S.Ct. 1172, 31 L.Ed.2d 232 (1972).

Because a finding of insufficient control essentially works a forfeiture, a person who asserts insufficient control must meet a high burden of proof. *American Foods, Inc. v. Golden Flake, Inc.*, 312 F.2d 619 (5th Cir. 1963).

The major purpose of quality control is to protect the public. Here, Williams knew in 1952 that Harris was competent and also well-acquainted with the bookkeeping service;[9] he would present no danger to the public. Harris's customers, service station dealers, received a highly personalized service on a regular, ongoing basis; they could test whether the service benefited them or whether they should seek additional or different service. This was not a case in which a licensor's failure to exert proper quality control over a careless licensee might lead an ordinary, unsuspecting customer to make an isolated purchase of contaminated food or a dangerously defective product. *Cf. Siegel v. Chicken Delight, supra; Dawn Donut Co. v. Hart's Food Stores*, 267 F.2d 358 (2d Cir. 1959).

West maintained close financial control over East in both the 1952 and 1968 Agreements. The 1968 Revised Agreement required East to use the Williams name, and limited East's use of it to the retail petroleum marketing industry. These controls were significant in view of Harris's independent personality and resistance to supervision. A licensee like Harris should not be permitted to resist quality control and then assert lack of quality control to invalidate a tradename license.

[9]East contends that Harris invented the bookkeeping service.

The amount of control required varies with the circumstances. All of these circumstances, considered together, support the district court's finding that there was sufficient quality control to sustain the tradename license.

The Copyright License

The district court held that West's copyrights on its account books were valid and that East's book "BP Records and Profit Check" infringed West's book of the same name. We agree.

The infringed book is typical of West's account books. It contains several pages of instructions. These instructions both precede and follow 31 pages of blank forms—one page for each day of the month. The dealer fills in the day's transactions in the various boxes on the blank forms.

Some of the instructions show the dealer how to fill in the forms.[10] Other instructions show the dealer how to operate his business.

One page of instructions, entitled "Monthly Sales Summary Explanation", begins by advising the dealer to first learn ". . . how much it costs you to open the door every morning. . . ." It shows the dealer how to calculate his overhead (listing "Wages, Rent, Supplies, Taxes . . ." and ten other items), his other money needs ("Loan Payment, Equipment

[10]A typical paragraph entitled "STAMP CONTROL—PROMOTION (Bottom of Daily Sheet)", reads:

> "This section offers an easy method of accounting for Stamps or Promotion Items. Opposite Open Inventory enter the Close Inventory from the previous day. Opposite Addition enter any purchases for the day. Total Open Inventory and Addition and enter opposite Total. Subtract Close Inventory at end of day and enter results opposite Gone."

Note Payment, Service Truck Payment . . .") and his daily "break even point". It advises that: "Successful dealers shoot for a 25% to 30% gross profit on total retail sales".

The instructions emphasize the importance of "balanced sales" and estimate how many dollars' worth of motor oil, tires, batteries, accessories, and other items a dealer should try to sell for every 1,000 gallons of gasoline. They also set forth optimum profit margins on these items, ranging from 20 per cent to 25 per cent on tires to 100 per cent on lubrication and labor. They conclude with tips on keeping regular records and using incentives to motivate employees: "Make a game out of seeing how early each day you and your men can sell enough to cover the Daily Operating Expense."

All of this information is carefully explained in step-by-step procedures under such headings as "What Successful Dealers Say" and "Know All Your Expenses". East's version of this page was pirated verbatim, except that East deleted West's copyright notice and the word "Monthly" from the title.

The district court recognized that *Baker v. Selden*, 101 U.S. 99, 25 L.Ed. 841 (1879), held that blank accounting books are not subject to copyright protection. The Copyright Office has interpreted *Baker v. Shelden* to prohibit copyright protection to:

> ". . . Blank forms, such as time cards, graph paper, account books, . . . and the like, which are designed for recording information and do not in themselves convey information." 37 C.F.R. § 202.1(c) (1959).

The district court found that West's copyrights were valid because the books conveyed information. We agree. In our view, the instructions and the blank forms constituted an integrated work entitled to copyright protection.

East also contends that the copyrights were invalid because: West was not the author or proprietor of the works; some of the copyrights were not properly renewed; and West took out new copyrights on only slightly altered old works, thereby effectively perpetuating their copyrights. East presented no credible evidence to support any of these contentions.

The district court found that East infringed West's copyright on the "BP Records and Profit Check". East's version merely rearranged and rephrased some of the introductory instructions. Otherwise East's version was almost identical to West's. We concur in the district court's holding that East was guilty of infringement.

The Antitrust Contentions

(a) *Territorial Allocations*

East contends that the 1952 and 1968 agreements divided the country into territories between actual and potential competitors, and were therefore per se violations of the antitrust laws.

We have already rejected the basis for this contention, namely, that the 1952 Agreement was a sale, not a license.

East was a potential competitor of West in 1952, before the agreement was signed. But East exchanged its right to compete with West for an exclusive sales agency in books and a tradename license in the book-

keeping service. East reaffirmed that bargain in the 1968 Revised Agreement.

Only in seminars can West and East be considered potential competitors. Seminars were neither mentioned nor contemplated in the 1952 Agreement. They were first developed and marketed by East beginning in 1966, and were an outgrowth of the sale of books and the bookkeeping service. It would have been awkward and confusing for West and East to have competed in seminars at the same time they were in a licensing and agency arrangement in closely related activities.

The territorial restrictions on seminars in the 1968 Revised Agreement were reasonable restraints ancillary to West's primary, legitimate purpose of protecting its tradenames and copyrights. If the primary purpose is legitimate, ancillary restraints which are reasonable may be permitted. *United States v. Addyston Pipe & Steel Co.*, 85 F. 271 (6th Cir. 1898), *aff'd*, 175 U.S. 211, 20 S.Ct. 96, 44 L.Ed. 136 (1899); *United States v. Columbia Pictures Corp.*, 189 F.Supp. 153, 178 (S.D.N.Y. 1960).

The territorial restrictions on seminars do not violate the antitrust laws.

(b) *The Schwinn Issues*

East contends that, even if the relationship was vertical, West violated both the per se test and the rule of reason test of *United States v. Arnold, Schwinn & Co.*, 388 U.S. 365, 87 S.Ct. 1856, 18 L.Ed.2d 1249 (1967). Under *Schwinn*, ". . . where a manufacturer *sells* products to his distributor subject to territorial restrictions upon resale, a *per se* violation

of the Sherman Act results." 388 U.S. at 379, 87 S.Ct. at 1865 (emphasis in original). But where the distributor is effectively an agent or salesman and ". . . [w]here the manufacturer retains title, dominion, and risk with respect to the product . . . it is only if the impact of the confinement is 'unreasonably' restrictive of competition that a violation of § 1 [of the Sherman Act] results . . . ." 388 U.S. at 380, 87 S.Ct. at 1866.

The tests of *Schwinn* were designed to apply when a manufacturer transfers a product to his distributor or his retailer, by sale, consignment, or agency.

Here there was only one product, the account books. The tests of *Schwinn* do not apply to the books, because East did not have possession of the books, except in isolated instances. West shipped the books directly to the customers, who paid West. East merely took orders for the books, and, after the books were paid for, received commissions from West.

Nor do *Schwinn's* concepts of "title, dominion, and risk" apply to services like the bookkeeping service and the seminars. In those services, West transferred tradename licenses to East. A sale under *Schwinn* must be made "with no strings attached"; a tradename license requires that the licensor retain "strings", that is, the title to his name and some dominion and risk over what he does transfer—his reputation.

Schwinn does not apply here.

Damages

East contends that the district court erred when it awarded damages to West for breach of contract. It makes several contentions, two of which merit brief discussion.

East contends that the district court erroneously awarded West its anticipated gross profits instead of its anticipated net profits on lost book sales. Lost profits in the eastern territory were calculated by deducting two items from West's anticipated gross revenues: East's commission of 30 per cent and the cost of printing the books. East presented no credible evidence that West's overhead was reduced. Damages may be awarded on the basis of gross profits when the breach does not significantly reduce overhead. *Buono Sales, Inc. v. Chrysler Motors Corp.*, 449 F.2d 715, 719-720 (3rd Cir. 1971). On this record, we cannot say that the award based on gross profits was clearly erroneous.

East also contends that the district court erred when it did not deduct West's post-repudiation revenues in the eastern territory from the award of damages to West for its lost licensee commissions. West claimed costs of about $215,000 in rebuilding its eastern licensing organization. East contends that West received revenues of about $130,000 from these operations. The district court must have taken these revenues into account, because it awarded West only $85,000 in damages on this issue.

We find no error in the court's award of damages.

Additional Contentions

The district court patiently considered the scores of contentions and the thousands of pages of pleadings, testimony and exhibits. Much of the evidence was not addressed to the real issues. We believe that the district court, in its thorough and detailed opinion, reached those issues and, with a single exception discussed in the next section, decided them correctly.

In this court appellants assert many errors. They clothe these assertions in the language of vituperation, directed primarily, though not exclusively, at the district court and its opinion.

We do not commend this tactic.

We have considered all of the appellants' contentions, and we have discussed most of them. There are others, on damages, on evidentiary rulings, and on the absence of explicit findings on certain issues. We have not discussed them because they lack merit.

West's Cross-Appeal

West filed a cross-appeal in which it seeks to have the judgment below against East also entered against Marcoin.

The principal shareholders of East—Harris, McFadden, and Talmage—created Marcoin in 1968 or 1969 to handle East's non-oil business. Later Marcoin acquired all of East's stock by giving East's shareholders Marcoin stock on a one-for-one exchange.

The directors and officers of the two corporations significantly overlapped. Harris, McFadden, and Talmage were directors, members of the executive committee, and the three highest-ranking officers of both corporations.

East and Marcoin operated out of the same offices in Virginia. After East in 1972 repudiated the 1968 Revised Agreement, most of its employees became employees of Marcoin with the same duties and titles. Customers who asked were told that the change from "East" to "Marcoin" was a change in name only. The business of East was transferred to Marcoin without any formal action by the boards of directors of the executive committees of either corporation.

In 1969 and 1970, East accounted for 90 to 95 per cent of Marcoin's revenues: 2.7 million dollars out of 2.8 million in 1969, and 3.3 million out of 3.6 million in 1970.

Marcoin and East profited from the industry-wide confusion[11] that surrounded the repudiation of the Revised Agreement and the subsequent corporate takeover of East by Marcoin. The evidence showed that West lost revenues on book orders in early 1972 from at least three oil companies—Sun, BP, and Texaco—because of the deception of Marcoin and East. The confusion caused hardship as well. East's sublicensees were forced to choose between staying with the East organization or staying with the Williams name, which they had helped develop.

West contends that Marcoin's actions left East an empty shell without resources to satisfy the judgment against East.

The district court did not make full findings on this issue, although it did find that East's repudiation in 1972 ". . . was inexcusable and not caused by any conduct on the part of plaintiff [West]. Rather, it was the placing in operation of a long-wished-for severance on the part of defendant Williams—East, *all under the guidance of Marcoin*." 377 F.Supp. at 429 (emphasis supplied).

There are no inflexible tests by which courts determine when to hold corporations liable for the acts

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[11]For example, one trade publication reported that "The Edwin K. Williams & Company, well known around these parts . . ., has been taken over by the Marcoin Management Service. . . . It is a nationwide organization and we expect they will be calling on you before long." The phrase "these parts" referred to Minnesota, which had been in West's territory.

of their subsidiaries.[12] Generally, the corporate separateness is respected unless ". . . to do so would work an injustice upon innocent third parties." *Fidelity & Deposit Co. of Maryland v. Usaform Hail Pool, Inc.*, 523 F.2d 744, 758 (5th Cir. 1975). But each case must be considered on its own facts. Courts have developed various checklists of relevant questions, which have been summarized by one commentator as follows: whether the transactions, employees, and accounts of the two corporations were intermingled; whether the corporations disregarded the procedural formalities of separateness; whether the two corporations represented themselves to the public as one; whether the later-formed corportion was adequately financed; and whether the later-formed corporation acted not for its own benefit but for the benefit of the first-formed corporation. *Henn on Corporations* § 148 (2d ed. 1970). Courts generally consider other factors, such as whether the two corporations have common stock ownership and common officers and directors. *See Steven v. Roscoe Turner Aeronautical Corp.*, 324 F.2d 157, 161 (7th Cir. 1963). For a thorough discussion of all relevant factors *see* 38 A.L.R.3d 1102 (1971) and 7 A.L.R3d 1343 (1966).

There was practically no dispute on the evidence. It showed that, between East and Marcoin, there was an intermingling of transactions and employees; a disregard of the formal separateness of the two corporations; common stock ownership and common directors and officers; a transfer of most of the assets and business to the later-formed corporation; representations

[12]The fact that here the subsidiary (East) created the parent (Marcoin) is unusual, but it does not affect the analysis.

to the public of a single identity; and, most important, moral culpability and the threat of injustice.

In our view, the district court erred as a matter of law in not finding that Marcoin and East should be treated as one entity. The case is remanded for entry of judgment against Marcoin as well as East. In all other respects, the judgment is affirmed.

Opinion of the District Court.

Edwin K. Williams & Co., Inc., a California corporation, Plaintiff, v. Edwin K. Williams & Co.—East, a Virginia corporation, and Marcoin, Inc., a Virginia corporation, Defendants. No. 70-2037-DWW.

United States District Court, C. D. California.

June 18, 1974.

MEMORANDUM

DAVID W. WILLIAMS, District Judge.

Beginning about 1935 Edwin K. Williams engaged in the business of designing and providing bookkeeping and business management systems for oil companies and record-keeping books for service station dealers, and of furnishing counseling services to aid them in inventory control, record keeping and the orderly operation of their business. His business was operated under the name of Edwin K. Williams and Co. and he has used various other designations, trademarks and trade names including "Profit Guide," "Quick Sales Recorder," "Profit Analyzer" and "Serv-A-Station Inc."

Fred G. Harris joined plaintiff's staff in 1946 and remained about three years, working generally out of the Los Angeles office. After a stint in the Navy, Harris rejoined Williams in 1952. Just prior to this

reunion, Williams had barnstormed the East for business and had received a few accounts, but had made no real progress in developing that territory. In 1952 Williams entered into an agreement which gave Harris the right to "sell, market and promote all bookkeeping systems, forms, books and methods" under the names used by plaintiff, in the states East of the Mississippi River (with stated exceptions). The agreement further gave Harris the right to market under his own name, or under plaintiff's name. Harris had the right to set up sublicensees to distribute the bookkeeping services and he was required to pay plaintiff 30% of the gross revenue he received from this source. Plaintiff turned over to Harris the few accounts he had developed in the Eastern area and from that point henceforth, plaintiff operated West of the Mississippi River (hereinafter called Williams-West) and Harris operated generally East of that line (hereinafter called Williams-East). At first Harris used the name "Fred G. Harris Company, Eastern Representative of Edwin K. Williams and Company" and also used the Serv-A-Station name in his territory; in 1957 he began to phase it out and by 1960 he was using the name Edwin K. Williams and Co., (Va.) (later Edwin K. Williams and Co.—East). Paragraph 7 of the 1952 agreement called for Harris to "use his best efforts to develop said Eastern territory and to maintain the good will of the companies now using Williams' books and systems."

Both Mr. Williams and Mr. Harris were firm, hard-headed businessmen. Williams often scolded Harris for what he considered dereliction of duty in developing the territory and generally tried to maintain the posture of a hard-driving taskmaster over Harris. On the other hand, Harris openly resented the mannerisms of Wil-

liams in this regard, but always managed to stay just short of open rebellion against his dominance. The parties to this lawsuit have shared in presenting upwards of 6,000 exhibits consisting of letters between the two men, bulletins and promotional material distributed by Williams to his own branches and licensees and to the branches and sublicensees of Harris, and communications between Harris and his sublicensees. In the latter, Harris attempted to convey the idea that they were all one large national family but that he (Harris) was the "sole proprietor" of the business in the East and that any cooperation between his sublicensees and E. K. Williams and Company in the West was only in the interest of maintaining a national image. A perusal of these many documents provides an interesting saga of the sublimated rivalry between Williams and Harris and the determination of each to maintain a posture of superiority over the other. Needless to say, there were many business disputes that took place concerning the development of the Eastern territory, promotion of the Williams' name and over accountings of funds flowing from one to the other.

Mr. Williams died in 1963 and his widow succeeded him as the head of plaintiff company. No shy violet, the widow quickly stepped into the breach and put together an excellent management team. She showed no intention of letting her husband's project founder or of letting his former associates take over. Her relations with Mr. Harris were no improvement over those that existed between her husband and Mr. Harris and by 1968 their relations were almost at the breaking point. Harris' desire to hold a management seminar outside his territory and within plaintiff's territory

caused plaintiff to file a lawsuit against him in the United States District Court in San Francisco in 1968. In an attempt to settle this lawsuit and the many disputes that existed between the parties, Mrs. Williams and her associates and attorneys met with Mr. Harris and his associates and attorneys for four days and hammered out a Settlement Agreement and a Revised Agreement dated July 25, 1968 which purported to resolve all disputes between them and to lead to the dismissal of the San Francisco lawsuit. The Revised Agreement further stated that it was the specific intent of the parties that this agreement shall supersede all other agreements between the parties and that "this Revised Agreement is entire and constitutes all of the promises and representations made by the parties herein to one another."[1] The agreement further states that "all prior agreements between the parties, including all agreements set forth in Article II hereof, are hereby terminated and superseded in their entirety by this Revised Agreement."[2]

Despite all these efforts at reconciliation, the parties fell to quarreling again and by the middle of 1970 each was refusing to account to the other for commissions due, and plaintiff filed this action. During the pendency of this lawsuit and sometime in February, 1972 Harris and his associates openly repudiated the Revised Agreement, taking the position that it was unenforceable and invalid.

Despite the pronouncements within the Revised Agreement that it is an integrated document which supersedes all earlier agreements of the parties, defend-

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[1]Article XXIII.
[2]Article XXVI.

ant contends that one must resort to an interpretation of the 1952 agreement in order to determine the true intent of the parties as respects whether the arrangement between the parties was a licensor-licensee situation or an outright sale by plaintiff to Harris of the exclusive right to sell plaintiff's record-books, management services and seminars in the Eastern district. Harris further stoutly contends that both the 1952 and the 1968 agreements amount to an outright sale to him of the right to the use of the name "Edwin K. Williams and Co." in his territory. In support of this he points to the use of the word "grant" in each agreement as opposed to the use of the word "license." I desire to put to rest immediately the contention of Mr. Harris that somehow the words of either agreement amount to a sale to him of the exclusive right to the name "Edwin K. Williams" within his Eastern district. Nowhere in either agreement are there used any words that would reflect this intent. Nowhere in either agreement is there any language that says specifically "Williams sells to Harris the exclusive right to the use of the name 'Edwin K. Williams' in the Eastern territory." The plain language of a contract should govern. It should set its limits and fix its boundaries.

The pertinent reference to this in the 1952 agreement is set forth in paragraph 1 thereof as follows:

1. "The Second Party does hereby grant, bargain and sell unto First Party the exclusive right, title and interest to sell, market and promote all bookkeeping systems, forms, books, and methods *under said names,* which now are used by Second Party, . . ." (emphasis added). (Exh. DX 406).

In the 1968 Revised Agreement the scope of the right is referred to in paragraph III A thereof in these words: ". . . the right to *utilize* and to license others to *utilize* the trade names and trademarks used by Williams, ..." (emphasis added). There is nothing whatsoever in the language of either the 1952 or the 1968 agreement that would support the contention of defendant that there was an outright sale to him of the use of the Edwin K. Williams name in his territory. Paragraph VII D of the Revised Agreement goes so far as to enjoin Harris from using the Edwin K. Williams name or any contraction thereof in connection with any activities not related to the subject of the contract, or the petroleum industry. Only by the boldest assertion of arrogance can Harris breach his contract with plaintiff, openly repudiate it, and then maintain that he has the right to continue the use of the Edwin K. Williams name in or without his territory. His claim that the acknowledged widespread acceptance of this name in the petroleum-oriented industry and the good will it has attained is due to his efforts to promote and publicize the name, was surrendered when he repudiated the Revised Agreement.

I turn to a consideration of whether the two agreements amount to a license to Harris, as contended by plaintiff, or a grant or sale as contended by defendant. In an earlier Order in this case I concluded that the clear language of the contract conflicts with defendant's interpretation and that what was sold involved a marketing right, not a sale. I made reference to Professor Callman's work thusly:

> "If the grant of the exclusive use of a trademark is limited as to duration or *area* (emphasis my own), it will not confer title thereto upon the licensee. A licensee acquires only the right to a limited use of the trademark, for the title to the reversionary interest in that use remains with the owner." Callman, 3 Unfair Competiton, Trademarks and Monopolies, § 78.2 (3rd Edition 1971 Supp.).

"Whether a transfer of a particular right or interest under a patent is an assignment or a license does not depend upon the name by which it calls itself, but upon the legal effect of its provisions." Waterman v. Mackenzie, 138 U.S. 252, 11 S.Ct. 334, 34 L.Ed. 923 (1890). "The broad fundamental practical difference between an assignment and a license is that the former gives the transferee the right to sue for infringement and the latter gives the transferee immunity from suit for infringement. The first gives positive rights, the second negative rights." Ellis on Patent Assignments and Licenses (2d Ed.) Sec. 57 P. 64. Citing Bloomer v. McQuewan, 14 How. 539, 549, 14 L.Ed. 532 (1852); Moto Meter Co. v. National Gauge & Equipment Co., 31 F.2d 994 (D.Del. 1929). Although the word "grant" is not ordinarily used to mean "license" it may mean "license" if the transfer instrument does not vest the entire interest in the alienee. Preload Enterprises, Inc. v. Pacific Bridge Co., 86 F.Supp. 976 (D.Del. 1949).

It must also be noted that the 1952 agreement was drafted by attorneys for Harris and that Williams was without the aid of a lawyer at that time, except that he depended upon the advice of a lawyer and close personal friend of Harris whom Williams consulted at Harris' urging. This attorney had assisted in the early draft of the agreement which was revised some-

what by Harris after consulting his lawyers in the East. If then, the contract is ambiguous, it must be construed most strictly against Harris. County of Alameda v. So. Pac. Ry. Co., 55 Cal.2d 479, 488, 11 Cal.Rptr. 751, 360 P.2d 327 (1961); Silva v. Meyer, 129 Cal.App.2d 15, 19, 276 P.2d 174 (1954); Yamanishi v. Bleily & Collishaw, Inc., 29 Cal.App.3d 457, 463, 105 Cal.Rptr. 580 (1972).

Nothing in the communications between these two men prior to the 1952 agreement, or in their relations since that agreement, and nothing in the relations between Mrs. Williams and Harris leading up to the 1968 agreement infer an intent to do anything but license Harris to market plaintiff's product and services in the Eastern states, utilizing the Williams name.

The very nature of the contract supports this conclusion. In a real sense, it all began with Harris being little more than an order-taker for Williams. As the relationship progressed, Harris certainly emerged as assuming a much more important role, and indeed became the proprietor of a first-class organization which perhaps accounted for at least half of Williams-West's total book business.

It is significant that the contract called for Harris to solicit book orders in his territory and have the *customer* forward the order directly to Williams-West in California. After reviewing the order, Williams-West would send it to Kemp Printing Company in Los Angeles to be printed and that company would ship the book directly to the customer who would then send his check in payment thereof to Williams-West. Williams-West would then forward the commission due Williams-East to it by its own check. A similar commission would go to defendant on sales of book-sets to oil companies headquartered in defendant's territory.

Conversely, the Revised Agreement called for Williams-East to pay to Williams-West a sum equal to 30% of the gross monthly revenue from the licensees and branch offices of Williams-East.

There was therefore a constant exchange of monies and a continuous flow of reports, accountings and demand for audits between the two parties. Nowhere in this record is there room for the finding that these were two separate and independent business houses, whose records were kept confidential from one another or who were competitors (or in an antitrust sense, potential competitors) with one another. On the other hand the record is replete with evidence of close interface. Harris held himself out as the Eastern Representative of Edwin K. Williams & Company. He encouraged his people to aid in creating and selling the image of a national company. Harris served on plaintiff's Board of Directors following the death of Mr. Williams and until 1966. National conventions were held and Harris aided Mrs. Williams plan several of these and became a speaker at some of them. At times, Harris would ask permission of Williams to do certain things within his territory (Exh. 52) and there were times that Williams would push Harris to gain greater saturation within his area. Williams often sent his bulletins and sales promotion material to Harris' licensees and branches, apparently without serious objection from Harris. (Illustration—Exh. 108 and 1086). Harris wrote his people telling them of standardizing plans (Exh. 136) on a national basis and boasted in another letter of being a part of Edwin K. Williams Company nationally (Exh. 350). There

were times when Harris referred to having the right to sub-license a city within his East territory (Exh. 2237) although generally he characterized his role differently.

The Williams-East people often visited the Williams-West plant to observe its operations and techniques and when regional conventions were held within defendant's territory, officials from Williams-West often attended and participated and sometimes shared the expense of it.

Defendants argue that the agreement should be construed a grant rather than a license because defendant operated a "sole proprietorship" and plaintiff had no control over it or the right to police its conduct. To the contrary the evidence points to many areas of control and supervision. Williams-East promised to use its best efforts at all times to conduct and promote the sale of Williams Company booksets in its territory. It also promised to actively solicit new licensees. Williams-East promised to pay all commissions due Williams-West promptly. The Revised Agreement compelled defendant to change its corporate name to Edwin K. Williams-East and to use only the following name designation on letterheads, brochures, etc.:

Edwin K. Williams & Co.—East
Eastern Representative
Edwin K. Williams & Co.

Williams exercised that control by rejecting out of hand Harris' suggestion that the name be changed to permit reference to the product as the Williams System or Williams Plan. (DX 408). Williams forbade Harris the right to use the Edwin K. Williams' name in any business Harris might enter that was not related

to the petroleum industry.[3] Harris was compelled by the Revised Agreement to keep adequate books and records in connection with his operation and Williams reserved the right to inspect or audit such records.[4] Harris was obligated to notify Williams of copyright infringement by third persons if he learned of any such. The Revised Agreement called for the right of Williams to terminate the contract if Williams-East failed to make prompt payments and then the territory would revert to Williams-West. The parties made provision for a standardization committee to attempt to prepare identical licensee agreements. All these facts bear heavily upon the determination of Mr. Williams to maintain a measure of control over the operation of Williams-East. I find that the Revised Agreement, as well as its predecessor agreement, was a license covenant.

ANTITRUST CONTENTIONS

An agreement between competitors at the same level of the market structure to allocate territories in order to minimize competition is a horizontal restraint of trade and a per se violation of Section 1 of the Sherman Act. Because horizontal territorial limitations serve no purpose other than the stifling of competition, they are considered naked restraints of trade. To determine whether a horizontal restraint exists it is necessary to examine the substance and structure of the association. In United States v. Sealy, Inc., 388 U.S. 350, 87 S.Ct. 1847, 18 L.Ed.2d 1238 (1967), Sealy licensed

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[3]In point of fact Harris did enter the escrow business and was compelled by the Revised Agreement to operate it under another name.

[4]The Revised Agreement also compelled Williams to maintain adequate records and Harris could audit same.

others to manufacture and sell bedding products under its name and copyrights for a royalty. It fixed retail prices and allocated exclusive market areas among the licensees. The 30 licensees were compelled to buy stock in the parent company in order to become licensees. All of the board members of Sealy were licensees. It was, in fact, a joint venture and an instrumentality of the licensees rather than a true vertical arrangement. The Court found that defendant was substantially owned and controlled by the licensees and therefore they were chargeable with the imposition of the territorial restraints in violation of Section 1 of the Sherman Act.

In United States v. Topco Associates, 405 U.S. 596, 92 S.Ct. 1126, 31 L.Ed.2d 515 (1972), the Court discussed horizontal per se restraints which are violative of Sherman Section 1. Topco is a cooperative association of 25 small to medium-sized regional supermarket chains. The members, who controlled the operations of the association and had a veto power of sorts as to new members, were given exclusive territories for the sale at retail of the association's private label products and could only sell such products at wholesale to specific geographic areas and under conditions imposed by the association. It was held that this constituted a horizontal restraint between competitors and was therefore a per se violation of Section 1. See also Timken Rollerbearing Co. v. United States, 341 U.S. 593, 71 S.Ct. 971, 95 L.Ed. 1199 (1951).

Price fixing arrangements, both vertical (United States v. Parke, Davis & Co., 362 U.S. 29, 80 S.Ct. 503, 4 L.Ed.2d 505 (1960)), and horizontal (United States v. Socony-Vacuum Oil Co., 310 U.S. 150, 60 S.Ct. 811, 84 L.Ed. 1129 (1940)), have been held

to be per se violations of the antitrust laws. A vertical arrangement is the fixing of restrictions between a manufacturer and his dealers or licensees. The true test of legality in limitations or restrictions is whether the restraint imposed is such as merely regulates and perhaps thereby promotes competition, or whether it is such as may suppress or even destroy competition. Board of Trade v. United States, 246 U.S. 231, 238, 38 S.Ct. 242, 243, 62 L.Ed. 683, 687 (1918).

In the case at bar there exists a measure of control by the licensor over the licensees, however, there is no feature of reverse control whereby the licensees, as compelled or permitted stockholders in the parent company, or officers thereof, have control over the operations of Williams-West. The rule seems to be that in situations involving related corporations, where the party imposing the restriction is not truly independent from the restricted parties, then such an agreement is deemed an illegal per se horizontal restraint. The imposing party then will be considered the mere agent of the restricted parties whenever the restricted parties possess control. United States v. Topco Associates, supra; United States v. Sealy, supra.

In United States v. Penn-Olin Chemical Co., 217 F.Supp. 110 (D.Del.1963), the Court held that "it is not every lessening of competition which is forbidden . . ." by the antitrust laws. The Court there found no horizontal restraint because the parties were seen as far removed from being actual competitors and therefore no per se violation of Section 1 existed.

I conclude that under the facts of this case there is a vertical rather than a horizontal arrangement and that such territorial restrictions placed by Williams-

West on Williams-East are justified as reasonable steps taken to implement a valid copyright licensing system.

Having determined that this case does not involve illegal horizontal restraints between competitors or potential competitors, we must now determine whether there exist vertical restraints which violate Section 1. United States v. Arnold, Schwinn & Co., 388 U.S. 365, 87 S.Ct. 1856, 18 L.Ed.2d 1249 (1967), aids in illustrating the type of analysis which must be made. There the Government charged a conspiracy between defendant and its distributors involving allocation of exclusive territories to the distributors and confinement of merchandise to franchise dealers. The District Court held that the territorial limitations were unlawful per se with respect to products sold by the defendant to its distributors, but that the limitation was not unlawful insofar as it is incident to sales by the defendant itself to franchise retailers where the distributor served the sole function of agent or consignee.

The Supreme Court held that a per se violation of Section 1 results when a vertical restriction exists where the manufacturer *sells* products to its distributors subject to territorial restrictions upon resale. Such a restraint is unreasonable without more for a manufacturer to seek to restrict and confine areas or persons with whom an article may be traded after the manufacturer has parted with dominion over it.

However, the Court held that where the manufacturer retains dominion, title, and risk with respect to the product and the function of the dealer or distributor in question is indistinguishable from that of an agent or salesman of the manufacturer, it is only if the impact of the vertical territorial restraint is "unreasonably" restrictive of competition that a violation of Section 1 results.

The Court felt that the rule of reason would be satisfied if:

a) the manufacturer adopted the challenged distribution program in a competitive situation dominated by mass merchandisers which command access to large-scale advertising and promotion, choice of retail outlets and adequate sources of supply,

b) the manufacturer's practices do not result in an inadequate competitive situation with respect to the relevant market,

c) the manufacturer's program does not exceed the limits necessary to meet the competitive problems posed by more powerful competitors.

Finally, the Court said that its holding should not be interpreted to suggest that in any and all circumstances where a single manufacturer has unilaterally adopted the agency or consignment pattern and the *Schwinn* type of restrictive distribution would such practice be justified by the presence of competition of mass merchandisers and by the demonstrated need of the franchise system to meet that competition. Certainly though, in such circumstances, the vertically imposed restrictions—absent price-fixing and in the presence of alternative products to meet the needs of the unfranchised—may not be held to be per se violations of Section 1.

It is significant that in the case at bar plaintiff makes no sale of book-sets to defendant or to any of its other licensees. It follows then that there cannot be any resale of this product by the defendant to its customers. The Revised Agreement calls upon the

defendant to solicit orders through its branches and sublicensees, which said orders are then forwarded to Williams-West who reviews the order and sends it to Kemp Printing Company for printing and shipping. The shipment is made directly to the customer of the defendant and the customer pays plaintiff, not defendant, for the goods. Plaintiff therefore maintains dominion, control, and risks of loss over the product until it reaches the consumer. Such facts, absent price-fixing, do not fall within the definition of a per se violation of Section 1 contemplated by *Schwinn*.

I conclude also that the restraint involved here is reasonable within the confines of the various factors set forth in *Schwinn*.

ILLEGAL TIE-IN ALLEGATIONS

Since 1947 the Supreme Court has held that tying arrangements are illegal per se. International Salt Co. v. United Staes, 332 U.S. 392, 68 S.Ct. 12, 92 L. Ed. 20 (1947). The Court reasoned that tie-in served no purpose beyond the suppression of competition since they denied competitors free access to the tied product market and forced buyers to forego their free choice among competitive products. Tie-ins are illegal under both Sherman § 1 and Clayton § 3. They are illegal under Sherman § 1 whenever (1) a party has sufficient economic power with respect to the tying product to appreciably restrain free competition in the market for the tied product, and, (2) a "not insubstantial" amount of interstate commerce is affected. Fortner Enterprises, Inc. v. U. S. Steel Corp., 394 U.S. 495, 89 S.Ct. 1252, 22 L.Ed.2d 495 (1969). Under Clayton § 3 it has been held that if either of the two Sherman § 1 conditions is present, a per se violation will be

found. Times-Picayune Publishing Co. v. United States, 345 U.S. 594, 73 S.Ct. 872, 97 L.Ed. 1277 (1953).

A tying arrangement has been defined by the Courts as an agreement by a party to sell one product but only on the condition that the buyer also purchases a different (tied) product, or at least agrees not to purchase that product from any other supplier. See Northern Pacific Railway v. United States, 356 U.S. 1, 78 S.Ct. 514, 2 L.Ed.2d 545 (1958).

Defendant contends there is evidence of an illegal tie-in with respect to the Revised Agreement. Defendant claims that plaintiff has forced Williams-East to accept something it does not want (a system of customer and territory allocations together with the payment to plaintiff) in order to get something that Williams-East does want (plaintiff's copyrighted record keeping books). It looks upon the record keeping book as the tying product and the business management services as the tied product.

Even defendant concedes that many people buy the plaintiff's books and do not buy business management services. (Defendant's Memorandum of Contentions, page 92). There is simply no evidence that plaintiff required a person who bought its books to purchase management services. In many instances the sale of books is made to service station dealers who are situated too remotely to be called upon by those agents who administer the counseling service.

The Revised Agreement requires defendant as the exclusive representative of plaintiff, to conduct its operations in a confined area in order to maximize the benefits from the use of plaintiff's copyrighted publications and trade name. It does not require defendants

to purchase any other product. Cf. Siegel v. Chicken Delight, Inc., 448 F.2d 43, 47 (9th Cir. 1971).

COPYRIGHT ISSUE

Plaintiff claims that defendant Marcoin's publication of a record-keeping book for the BP Oil Company in 1972 infringed plaintiff's copyright on a record-keeping book which plaintiff printed in 1970 for the same oil company. Defendant denies infringement and puts in issue not only the validity of the BP copyright but all other of plaintiff's claimed copyrights on record-keeping books. It asks for a declaratory judgment of copyright invalidity.[5] Defendants state that the copyrights are invalid because, (1) blank record-keeping forms are not copyrightable, (2) plaintiff is not the author of the cover or forms, (3) the copyrights have lapsed or been voided, and (4) are void because of misuse.

Prior to the repudiation of the agreement by defendant it solicited BP, and Williams-West caused the book to be printed for the oil company at Kemp Printing Company. The pages carried plaintiff's copyright symbol. After the repudiation, defendant had its Marcoin Company solicit the order and had its own printer prepare it. Here, there is both access and substantial, if not striking similarity between the two booksets. The cover, of course, is identical because it was prepared to BP's design. With some small rearrangement, the instructions are substantially identical. The sample daily sheet is so identical the defendants didn't bother

[5]Each record-keeping book contains a cover (some having the logo of a particular oil company for distribution to its dealers), an instruction sheet, daily sheets and various forms for use as a monthly sales summary, purchase record, expense summary and profit and loss statement.

to change the handwritten words and figures used to illustrate the plan. There is sufficient comparison between the arrangements of boxes and columns to show copying. Marcoin has not only used plaintiff's system but has used the same ruled lines and headings.

Plaintiff's BP Records and Profit Check contains text material intended to instruct the user in the proper manner in which to use the forms contained in the book. It thus conveys information. I conclude that plaintiff's work is properly the subject matter of copyright. Cash Dividend Check Corp. v. Davis, 247 F.2d 458 (9th Cir. 1957); Harcourt, Brace & World, Inc. v. Graphic Controls Corporation, 329 F.Supp. 517 (S.D.N.Y.1971). If Baker v. Selden, 101 U.S. 99, 25 L.Ed. 841 (1879) is still good law despite the great criticism of it found in texts and cases[6] it does not come to this defendant's aid.

Defendant's contentions of lack of authorship are also without merit. Plaintiff's copyrighted works are the result of revisions of previous books and the collective efforts and contributions of plaintiff's own employees and other persons who contributed without expectation of compensation and with no reservation of copyright by them in the work.

The protracted period of dispute between these parties has given rise to several transactional controversies having to do with the interpretation of the Revised Agreement. I have considered the contentions of each side regarding these disputes and reached the following findings:

1) Paragraph VII A of the Revised Agreement which mentions commissions due from plaintiff to de-

[6]Nimmer on Copyright § 37; Mazer v. Stein, 347 U.S. 201, 74 S.Ct. 460, 98 L.Ed. 630 (1954).

fendant should be interpreted so that freight costs are deducted from defendant's commission. That same paragraph should be construed to mean that a commission is payable to defendant at such time as orders are actually purchased and funds are received by plaintiff. A guarantee to purchase is not a sale within the meaning of this paragraph until the oil company pays plaintiff for the remaining books. An exception to this must be made. I find that Mrs. Williams agreed to waive any contractual position she may have had as to Shell orders between December 1968 and February 28, 1972 and defendant is entitled to its commission on those orders if it has been paid by Shell.

2) Paragraph VII C "retail" price within the meaning of this paragraph is not the quantity discount or wholesale price charged to oil companies; rather it is the retail list price.

3) Paragraph VIII D "gross monthly revenue" as mentioned in this paragraph does not include the $4.00 monthly account fee on defendant's branch offices or the longevity discount.

4) I find against plaintiff on its claim for damages in the Eleventh Cause of Action for refusal to permit an audit.

5) I find that there are payments due from each party since the date each party began refusing to make reports and payments to the other. The parties shall confer and attempt to reach the appropriate figure and in the event they cannot arrive at a satisfactory agreement within 30 days of the filing of this order, each shall notify the Court of such fact and the Court reserves jurisdiction to appoint a Master at the expense of the parties to make such determination.

6) Because of the repudiation of the Revised Agreement by defendant, all rights to the east territory shall revert to plaintiff pursuant to Article XIII of the Revised Agreement. This is not intended to mean that defendants licensees and branch offices become licensees and branch offices of plaintiff but that plaintiff is free to develop the territory.

7) Plaintiff is entitled to damages for losing book orders, losing licensee commissions and incurring costs in its attempt to rebuild an eastern licensee organization to replace Williams-East. Plaintiff is further entitled to damages because of the breach by defendant of the terms of the Revised Agreement. Plaintiff is further entitled to damages from defendant by reason of defendant's infringement of plaintiff's copyrights. Damages for this item shall be assessed against all defendants.

While plaintiff is justified in asking damages in some sum for loss of profits during what it calls the expected additional 11 years life of the Revised Agreement, it is not entitled to the requested computation thereof. First, this is true because, like many divorce cases (and the caption of this cause suggests one) there is no completely innocent party. Both parties' conduct prior to February 1972 was such as would strain at cordial business relations, but defendant's open repudiation during that month was inexcusable and not caused by any conduct on the part of plaintiff. Rather, it was the placing in operation of a long-wished-for severance on the part of defendant Williams-East, all under the guidance of Marcoin. Secondly, as we look today at this petroleum oriented business caught in the center of an energy crunch, there is no assurance that the next few years will see the number of viable service

stations that have dotted our geography in the past. It would seem fair to use a two-year period in estimating future losses to plaintiff in the east area until it has geared its forces to become a competitive factor there.

PLAINTIFF'S DAMAGES

Lost Book Sales

2-1-72 to 9-30-72	$ 71,104.00
10-1-72 to 9-30-73	92,407.00

Loss of Licensee Commissions

1972	92,362.19
1973	91,506.97
Two years projection (discounted)	160,000.00

Loss of Good Will

Two years computation	30,000.00

Costs Incurred in Setting Up East Area

Estimated	85,000.00

Copyright Infringement

Loss on March 72 to B.P. Sale (Defendant's Profit figure used)	6,212.00
TOTAL	$628,592.16

Plaintiff is further entitled to a permanent injunction enjoining defendants or any of them, their agents, servants and employees, and all persons acting under, in concert with, or for them, from using the name Edwin K. Williams and Company or any variation thereof, or the Edwin K. Williams logo, or the trade names "Profit Guide," "Quick Sales Recorder," "Profit Analyzer" and "Serv-A-Station, Inc." Defendants are further enjoined from representing in any way or manner that defendants are a representative or agent of

plaintiff and are further enjoined from infringing any of the copyrights of plaintiff litigated in this action and are required to deliver up for destruction all plates, molds and other matter for making such infringing copies.

The parties shall compute the damages to which defendants are entitled and the same shall become set-off as against plaintiff's damages. Pursuant to Rule 52(a) of Federal Rules of Civil Procedure this memorandum shall constitute the findings of this Court. Plaintiff shall prepare a form of judgment.

Testimony of R. Keith Hamilton.

Q: And Williams-East was not permitted under the [Revised Agreement] to sell books of any of Williams' competitors?

A: (Hamilton) That is correct.

Q: Did that same exclusivity extend to such things as seminars?

A: I believe so, yes.

Q: And to business management services?

A: Yes, I believe so.

Q: Anything else?

A: As I said earlier, anything connected with the retail petroleum business, gasoline service stations.

Q: If it engaged in any of those activities, it had to do so using the Williams name?

A: Yes, sir. That's my interpretation of the Revised Agreement.

Q: Now, is it also your understanding of the Revised Agreement that Marcoin could not sell record-keeping systems to oil companies?

A: The Revised Agreement doesn't mention Marcoin.

Q: Is it your understanding of the intent of the agreement that Mr. Harris, as an officer of Marcoin, should not be in the position of selling non-Williams bookkeeping materials to oil companies?

A: Yes.

Q: The same would be true for business management services and seminars, I take it?

A: To gasoline retailers?

Q: Yes.

A: Yes.

(Hamilton Deposition, pp. 300-01.)

Supreme Court, U. S.
FILED
JAN 31 1977
MICHAEL RODAK, JR., CLERK

IN THE

Supreme Court of the United States

OCTOBER TERM, 1976
No. 76-910

EDWIN K. WILLIAMS & CO. — EAST, INC. AND MARCOIN, INC.

Petitioners,

vs.

EDWIN K. WILLIAMS & CO., INC., KEMP PRINTING CO. AND MRS. E. K. WILLIAMS,

Respondents.

ON PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT.

BRIEF FOR RESPONDENTS IN OPPOSITION

DONALD C. SMALTZ
523 West Sixth Street, Suite 440
Los Angeles, California 90014
Telephone (213) 625-1666
Attorney for Respondents,
EDWIN K. WILLIAMS & CO., INC.
AND MRS. E. K. WILLIAMS

HARLAN P. HUEBNER
900 Wilshire Blvd., Suite 1000
Los Angeles, California 90017
Telephone (213) 626-7766
Attorney for Respondent
KEMP PRINTING CO.

Of Counsel:
Law Offices of DONALD C. SMALTZ
MICHAEL D. SCOTT
523 West Sixth Street, Suite 440
Los Angeles, California 90014

HUEBNER & WORREL
900 Wilshire Boulevard, Suite 1000
Los Angeles, California 90017

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Petitioners,

vs.

EDWIN K. WILLIAMS & CO., INC., KEMP PRINTING CO. AND MRS. E. K. WILLIAMS,

Respondents.

ON PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT.

BRIEF FOR RESPONDENTS IN OPPOSITION

OPINION BELOW

The decision of the District Court (Pet. App. 23-45)[1] is reported at 377 F. Supp. 418. The opinion of the Ninth Circuit Court of Appeals (Pet. App. 1-23), affirming and reversing in part the judgment of the District Court, is reported at 542 F.2d 1053.

On November 17, 1976, the Court of Appeals denied a petition for rehearing and suggestion for rehearing *en banc.*

[1] The following abbreviations are used in this brief. "Pet." for Petition for Writ of certiorari; "Pet.App." for Appendix of Petition; "Res.App." for Appendix of this brief; "R.T." for Reporter's Transcript; "C.T." for Clerk's Transcript; "DX" for Petitioner's exhibits received in evidence at trial "Ex." for Respondent's exhibits received in evidence at trial.

JURISDICTION

The jurisdiction requisites are adequately set forth in the Petition (Pet. 2).

QUESTIONS PRESENTED

1. Whether a license agreement, whereby the licensee is granted the exclusive right to use the licensor's trade name, trademarks, copyrighted materials and methods, and designated as the exclusive representative for the licensor's services and copyrighted publications in a specific geographic area, violates Section 1 of the Sherman Act?

2. Whether record keeping books which convey information, instruct the user as to the proper methods of assembling and recording daily and monthly financial transactions, provide a means for so doing, and instruct the user how to operate his business, are copyrightable?

STATUTES INVOLVED

Section 1 of the Sherman Act (15 U.S.C. § 1) and Section 1 of the Copyright Law (17 U.S.C. § 1), are set forth at pages 2-7 of the Petition.

COUNTERSTATEMENT OF THE CASE

This case is a franchisor-franchisee dispute. However, unlike many cases in which this Court is petitioned to review a contract alleged to be illegal under the antitrust laws, it does *not* involve the termination by a franchisor of a franchisee's agreement. Rather, it concerns the franchisee's unannounced unilateral repudiation of a contract (entered into 3½ years earlier) at a time when it was convenient to the franchisee and the matter was *sub judice*.

The factual assertions upon which Petitioners' claims of illegality are based do not find any support in the voluminous record of the proceedings below, and are contrary to the findings and conclusions of the trial and circuit courts. In order to put the issues in their proper factual perspective, we set forth the following facts which were adduced at trial and found to be the uncontrovertible facts by both the trial and appellate courts.

A. Respondent, Edwin K. Williams & Co., and its Business.

Since 1935, Edwin K. Williams & Co. ("Williams Company") has been in the business of designing and providing record keeping books for oil companies and service station dealers, and bookkeeping management services for service station dealers.[2] The business management service is a financial counseling service developed by the Williams Company and rendered by individual licensees operating under the Edwin K. Williams & Co. name. The licensee analyzes the service station dealer's monthly and yearly financial records, prepares operating

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[2] The founder of respondent, Mr. Edwin K. Williams, began business as a sole proprietor in 1935 when he developed and designed a single, comprehensive instruction and record keeping book for unsophisticated service station dealers. In conjunction with these books, Mr. Williams furnished counseling to aid the service station dealers in their record keeping, inventory control and general operation of their businesses. (Ex. 1-D, 2895, 947) (R.T. 713, 1892) At first, Mr. Williams peddled books to individual dealers out of the back seat of his automobile. In 1936, he succeeded in making his first sale to a major oil company. The purchase by the oil company was significant because, once the oil company purchased his record keeping books, it then recommended the books to its dealers. (R.T. 808-809) Upon gaining acceptance of his product at the dealer level and by a major oil company, Mr. Williams was able to convince other oil companies to utilize his bookkeeping system.

In 1945, Mr. Williams appointed his first licensee to render those counseling services to dealers; and thereafter, Mr. Williams incorporated his sole proprietorship into a company named Edwin K. Williams & Co.

statements, and advises the dealer of problems in his business and how to correct them, all with a view toward making the dealer's operation more profitable. The Williams Company's record keeping books provide the primary documents from which the independent licensee is able to render business management services to the dealer at relatively low cost. While the dealer can use the books without the services, generally he does not use the service without the books.

Until 1952, Williams Company directly licensed the licensee to perform counseling services. In 1952, Williams Company began to operate through various regional representatives. Each representative had a specific geographic territory in which he was responsible for placing licensees, developing and maintaining contacts with oil companies headquartered in that area, and soliciting orders for Williams Company's publications. The licensees, in turn, were responsible to the regional representative.

B. Petitioner East's Relationship with the Williams Company.

Fred G. Harris, the predecessor of Edwin K. Williams & Co.-East ("East"), personally worked for Mr. Williams in Los Angeles from 1946 to 1949. In 1949, Mr. Williams and Harris parted company. Harris ultimately entered the Navy and was assigned to the Washington, D.C., area from 1949 to 1952.

In 1952, while Harris was still in the Navy, he and Mr. Williams entered into an agreement (the "1952 Agreement") whereby Harris became the Eastern Representative of the Williams Company in the states east of the

Mississippi River. The Williams Company turned over to Harris the accounts it had developed in the eastern states, along with the goodwill, and Harris agreed to "use his best efforts to develop said eastern territory and to maintain the goodwill of the companies now using [Mr. Williams'] books and systems." (Pet. App. 23-25) Harris acquired the exclusive right to "sell, market and promote all bookkeeping systems, forms, books and methods" in the east under the name used by the Williams Company. Harris was required to forward to the Williams Company orders for books, and he received a commission on the orders he placed in that territory. Harris obtained the right to market under his own name or under the names used by the Williams Company, and the right to set up sublicensees to perform the bookkeeping services. Harris was required to pay to the Williams Company 30% of the gross revenues from these sublicensees. (Pet. App. 3-4) As found by the District Court, the relationship whereby Harris became Williams' eastern representative "all began with Harris being little more than an order-taker for Williams." (Pet. App. 30)

From the outset in 1952, Harris operated as "Fred G. Harris Company, Eastern Representative of Edwin K. Williams & Co.," and continuously held himself out to the trade as being "under an exclusive license agreement to use the Edwin K. Williams & Co. name, know-how, forms, methods, etc." (Ex. 55, pp. 2-3)

Harris' initial efforts as Williams Company's eastern representative met with limited results, as he was unable to properly develop the eastern territory.[3] In 1955, Mr. Williams threatened to cancel their agreement unless

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[3] After 3½ years, Harris was only able to acquire one new oil company account and had only 4 licensee offices.

Harris could better develop the area. In 1956 and 1959, Harris' territory was reduced.[4]

In 1963, Harris and a business partner whom he had acquired in 1954 formed the Fred G. Harris Corporation as successor to their partnership. In 1964, the corporation changed its name to Edwin K. Williams & Co. (Va.) and in 1968 to Edwin K. Williams & Co. - East.

From 1952 through 1972, Harris and the successor partnership and corporations (now East), pursuant to its license, continuously utilized respondents' trade name, service marks, trademarks, business materials, assistance, direction, advice and help in developing the eastern territory. East was developed as part of and not separately from the Williams Company's national organization and continually identified itself as "part of the worldwide organization [Edwin K. Williams & Co.] which produces the dealer record system for over 30 major oil companies, . . . offers a business management service exclusively for service stations to over 40,000 dealer clients each month, . . . [and] has been in this business (only) since 1935." (DX 2354)

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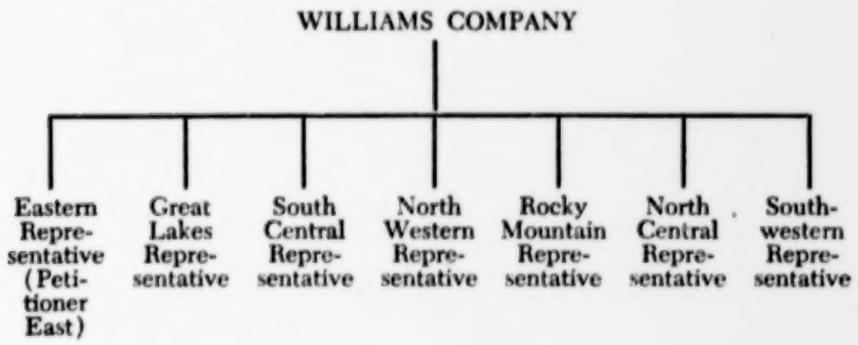
[4] Harris was ultimately one of 7 territorial representatives of Williams. Mr. Williams appointed representatives for the Northwestern states in 1953; South Central states in 1955; North Central states in 1959; Rocky Mountain states in 1961; and, after Mr. Williams' death in 1963, the Southwestern states. (Pet. App. 4) Thus, at the time of the Revised Agreement, the structure of the Williams Company was as follows:



C. The Controlling Contract — The Revised Agreement.

After Mr. Williams' death in 1963, his widow, respondent Mrs. Edwin K. Williams, became president of the Williams Company. Problems with her eastern representative resulted in a lawsuit in 1968 by Williams Company against East for infringement of the Williams Company's trade names and copyrights, money owed by East and various other relief. (Res.App. 1-2) In an effort to resolve all existing disputes, after four days of continuous negotiations, the parties executed a settlement agreement and the Revised Agreement on July 22, 1968. (Res.App. 1-6 & 7-27)

D. The Commencement of the Litigation

Despite the definitive nature of the 1968 settlement, each party shortly thereafter disputed the other's interpretations of their rights and duties. After respondents' efforts to resolve the differences failed, respondents filed suit for, *inter alia*, declarative relief in August, 1970.

On January 8, 1971, East answered and, thereafter, filed an amended answer and counterclaims against respondents, Edwin K. Williams & Co., Mrs. Edwin K. Williams (president and sole shareholder of respondent), and Kemp Printing Co.[5] East's amended answer and counterclaim alleged that the Revised Agreement was now violative of the antitrust laws because it allegedly was between "competitors." Further, that the copyrights on certain of Williams Company's materials were now void. The suit temporarily abated between April, 1971 and January 11, 1972, while the parties conducted settlement negotiations. During these negotiations, the parties' conduct was governed by a stipulated court order which required the parties to act in accord-

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[5] Kemp, a California corporation, was 70% owned by Mrs. Williams, and printed the record keeping books and other materials utilized by the Williams Company and its licensees.

ance with the Revised Agreement during negotiations. (C.T. 1338-1349)

On January 11, 1972, the stipulation expired and settlement negotiations ceased. On February 29, 1972, during the course of discovery proceedings, Williams Company first learned that East was no longer operating pursuant to the Revised Agreement, but rather, had some 6 weeks before secretly repudiated it and had transferred its key employees to Petitioner Marcoin.[6]

E. Petitioners' Surreptitious Repudiation of the Revised Agreement.

Without announcing to anyone that it had repudiated the Revised Agreement, East's and Marcoin's officers (they were the same) on January 14, 1972, began soliciting orders from various oil company customers whom East had serviced as Williams Company's representative. East solicited and received orders for 14,000 book sets of Williams' record keeping books from three major oil companies, without informing any of these customers that they were no longer Williams' representative. Each of these customers believed that they were ordering Williams Company's publications, and the purchase orders noted that the books were to be printed by *"Williams Printing Company."* This printing company was not connected with or related to respondent in any way — except it had the same name.[7]

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[6] Marcoin had been created in 1969 by the officers of East and shortly thereafter East became Marcoin's wholly-owned subsidiary.

[7] Williams Company first learned of the repudiation on February 29, 1972, after the orders were obtained, while Williams was deposing one of East's officers. No officer of either Marcoin or East (and each officer of East held a corresponding official position with Marcoin, and vice versa) knew the date when the repudiation occurred, and no documentation could be found in the corporate minutes of either organization which reflected the date of the repudiation or that it was in fact made at all. The repudiation was described by Marcoin as a "reorganization" that "was commenced in 1971." (Ex. 3103) According to Harris (East's founder and vice president at time of trial, and chairman of the board of Marcoin), the justification for the repudiation was that, since the Williams Company and East couldn't agree to a merger in 1971, East and Marcoin decided to repudiate the agreement. (R.T. 1822) (Ex. 3109) The court found that the repudiation "was inexcusable . . . [and] the placing in operation of a long-wished-for severance on the part of defendant Williams-East, all under the guidance of Marcoin." (Pet. App. 43)

Williams Company moved for injunctive relief and was ultimately granted an injunction prohibiting East and Marcoin from utilizing the Williams trade name and representing in East's publication that the printing was being done by the *Williams Printing Company.*

Williams Company then began to rebuild its eastern organization since it no longer was represented in the eastern 22-state area. (R.T.314-315) East and Marcoin tried to thwart these efforts by attempting to convince the industry that the Williams Company was changing its name to Marcoin,[8] and as a result, confusion was rampant both at the oil company and dealer levels.

In June, 1972, Williams Company filed a supplemental complaint seeking damages and injunctive relief for breach of contract, infringement of copyright, false designation of origin, trade name infringement, unfair competition and interference with contractual business relations. (C.T. 971-988) East filed supplemental counterclaims realleging their previous contentions.

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[8] First, they issued a series of joint letter announcements to the trade stating that Edwin K. Williams & Co. — East was changing its name to Marcoin. The announcement did not state or imply that East was no longer a representative of the Williams Company. These letters were followed by ads placed in trade journals and press releases in various publications, which only informed the public of the name change, stating that East and Marcoin would be offering the same goods and services under the Marcoin name.

F. The Trial and Appeal.

Trial commenced on January 2, 1974, before the Honorable David W. Williams, a jury having been waived. It ended on February 19, 1974. During the course of the seven-week trial, the court heard testimony from 18 live witnesses, received in evidence over 4,000 pages of exhibits, and deposition testimony of 16 deponents totalling over 2,600 pages with hundreds of exhibits. (Pet. App. 10)

The trial court found that the Revised Agreement was a valid trade name and copyright license and not violative of the Sherman Act; that the copyrights were valid; and that East and Marcoin committed trade name infringement. The Judgment (C.T. 2471-2487) awarded damages against East to Williams Company for breach of contract and tortious acts in the amount of $586,721.51, and against Marcoin for copyright infringement in the amount of $6,212.00. East and Marcoin were permanently enjoined from using the logos and trade name of Edwin K. Williams, or variations thereof, and from representing in any fashion that they were representatives of the Williams Company and from infringing Williams Company's copyrights. (C.T. 2484, 2485)

The Ninth Circuit Court of Appeals affirmed the holding of the opinion of the District Court except that it held the full amount of the judgment binding against Marcoin, as well as East. (Pet. App. 23)

ARGUMENT

THIS COURT SHOULD NOT GRANT A WRIT OF CERTIORARI TO REVIEW FACTUAL DETERMINATIONS MADE BY THE TRIAL COURT AND AFFIRMED BY THE COURT OF APPEALS.

No matter how Petitioners frame the issues, this case must be decided on its facts. Petitioners' efforts to

create issues for review purposes lead them to ignore not only the facts of this case, but also the facts and holdings of those decisions which they cite in support of their arguments. In adopting this tactic, Petitioners have demonstrated their conscious disregard of this Court's admonition that:

> "[E]ach case arising under the Sherman Act must be determined upon the particular facts disclosed by the record, and that the opinions in those cases must be read in the light of their facts and of a clear recognition of the essential differences in the facts of those cases, and in the facts of any new case to which the rule of earlier decisions is to be applied. *Maple Flooring Mfgr's. Assn. v. United States*, 258 U.S. 563, 579 (1925).

A. The Decision of the Court Below Is Not In Conflict With This Court's Holdings in Sealy, Topco and Timken.

Petitioners' argument on this point begins with the premise that, since Petitioners and Respondent competed with each other after Petitioners' repudiation of the Revised Agreement, "East and West [Williams Company] were competitors but for the Revised Agreement." Petitioners thus contend that the decision of the court below conflicts with *Sealy, Topco* and *Timken*. (Pet. 25, 26) This argument is a non sequitur.

At trial, Petitioners' founder and the chairman of the board of Marcoin, Fred Harris, testified that East did not become a competitor of Williams in any way until "when we terminated the Revised Agreement or shortly around that time." (R.T. 1536, 1537) The voluminous evidence concerning the historical relationship between the parties unequivocally established that East, throughout the 19 years it was Williams' eastern representative, had been a part of the Williams Company, utilized Wil-

liams' trade names, copyrights, service marks, business materials, and was developed as part of, and not separately from, the Williams Company.

East insists upon fabricating a competitive relationship on the theory that if it can establish that it was a "co-equal," *ergo* it was a competitor. That is not what the evidence at trial disclosed.[9]

Viewing the relationship of Williams and East under the Revised Agreement in the context of a national organizational structure, there were three tiers. These tiers were:

(1) The Williams Company, the owner of the trade name, trademarks and copyrights, and licensor of its bookkeeping service counseling, and seminars, and publisher of its record keeping books.

(2) The seven regional representatives, including East.

(3) The licensees, consisting of independent businessmen directly licensed by the Williams Company to render counseling to service station dealers (except in the east where sublicenses were issued through East).

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[9] Petitioners contend that they were competitors because they operated at the same functional level prior to the repudiation (Pet. App. 26) That assertion is wrong. *First*, no representative – including East – sold the books; rather, all representatives solicited orders for the books and forwarded them to Williams who approved their format and had them printed, and the representatives received a commission. *Second*, Williams Company did not perform the bookkeeping services and counseling for the service station dealers; its licensees did. East had both sublicensees (as had some other representatives of Williams) and branch offices that did such bookkeeping services and counseling. *Third*, Williams' services were conducted by a wholly-owned subsidiary, the Edwin K. Williams Management Institute, Inc.; they were not performed by Williams. Williams referred inquiries for seminars to East and to the Management Institute.

Different duties and functions were provided by the three tiers of the Williams Company. Williams was the licensor of the independent businessmen who furnished, under the Williams name and banner, the Williams' business counseling and financial management services to service station dealers. In return, the licensee paid a commission to Williams, computed on a percentage of its gross sales — except in the east where Williams was to receive 30% of the gross monthly revenue paid to East by its sublicensees and branch offices. (Res.App. 16, Art. VIII-D) Throughout its 22-state territory by the terms of the Revised Agreement, East was granted:

> ". . . the sale, franchise and use of the services, publications, and systems developed by Williams, the licensing of licensees, the operation of branch offices, the promotion of said services, publications and systems with licensees, service stations and oil companies, the right to print forms developed by Williams, . . . the right to utilize and to license others to utilize the trade names and trademarks used by Williams, and to exploit the copyrighted material of Williams as well as other copyrighted material derived therefrom, and the right to conduct seminars and business management or sales programs in conjunction with oil company or service station management.***" (Article III-A, Res.App. 9-10)

The trial court's finding that "[n]owhere in this record is there room for the finding that these were two separate and independent business houses . . . who were competitors (or in any antitrust sense potential competitors) with one another" (Pet.App.31) is abundantly correct.[10]

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[10] Petitioners' claim that "[t]he Ninth Circuit opinion concedes that fact," *i.e.*, that Williams and East were competitors (Pet. 26) not only distorts the record, since Harris at the time he signed the 1952 agreement was still in the Navy and was not even in business, but also distorts the context in which the phrase was used in the opinion. The opinion states only that in

Petitioners' reliance on *United States v. Sealy, Inc.*, 388 U.S. 350 (1967), and *United States v. Topco Assoc.*, 405 U.S. 596 (1972), as support for their assertions that East must be deemed a horizontal competitor is misplaced. Petitioners' reference ignores critical facts present in *Sealy* and *Topco*, but absent in this case, *viz.*, that the licensees in each controlled the purported licensor. In both *Sealy* and *Topco*, the licensor was no more than the creation of the licensees, and in both cases the licensees comprised the board of directors of the licensor, and thus were able to control and operate the everyday business affairs of the purported licensor. These determinative facts are absent in this case, as the evidence concerning the sole control all pointed in one direction — from Williams over East — and there were no elements of reverse control. Thus, the trial court properly found that, "[i]n the case at bar there exists a measure of control by the licensor over the licensees, however there is no feature of reverse control whereby the licensees, as compelled or permitted stockholders in the parent company, or officers thereof, have control over the operations of Williams-West." (Pet. App. 35)

East's contention that under the test of *United States v. Jos. Schlitz Brewing Co.*, 253 F. Supp. 129 (N.D. Cal.), *aff'd per curiam*, 385 U.S. 37 (1966), Williams Company and East were competitors, is woefully misplaced.[11] Evi-

1952 Harris was "a potential competitor prior to the time he signed the agreement." Obviously, the court was using the term "potential competitor" in the sense that anyone in the world could be a potential competitor of any business if he decides to start a business in competition with it. The Circuit Court held that only in seminars could Williams and East be potential competitors. (Pet. App. 17)

[11] In *Schlitz*, the two companies, Labatt and Burgermeister (which Schlitz had acquired) were existing, viable, independent competitors of Schlitz, offering their respective products under their own labels in the same market prior to the acquisition.

dence here established that under the Revised Agreement East was neither a *de facto* competitor, per *Schlitz*, nor a *de jure* competitor, per *Sealy*. The trial court so found, and that finding is proper under the facts of this case.[12]

Petitioners also urge (Pet. 25-27) that the decision below conflicts with this Court's decision in *Timken Roller Bearing Co. v. United States*, 341 U.S. 593 (1951). That decision condemned a system of trademark licensing adopted by an international cartel to divide world markets. It is cited apparently for the proposition that trademark licensing systems are not immune from antitrust scrutiny. (Pet. 26-27) Nothing in the decision below is to the contrary.

B. The Decision Below on the Issue of Territorial Restraints Does Not Conflict With This Court's Decision in Schwinn, Nor the Decisions of Other Circuits.

The courts below determined that, under the facts of this case, there was a vertical rather than a horizontal arrangement, and that "the Revised Agreement requires . . . [East] as the exclusive representative of . . . [Williams,] to conduct its operations in a confined area to maximize the benefits from the use of Williams' copyrighted publications and trade names." (Pet. App. 18, 35,

[12] Contrary to Petitioners' assertions, *American Motor Inns, Inc. v. Holiday Inns, Inc.*, 521 F.2d 1230 (3d Cir. 1975), does not conflict with the analysis of the court below, but rather is in total accord. Holiday Inns had a procedure whereby, when it received a request for a new franchise, it would send notice of same to the three closest existing Holiday Inns. If any one of the three objected, the proposed franchise would not be issued. The court there recognized that this procedure permitted existing franchisees to control the licenses and to determine and control the extent of competition. It found the effect to be "similar to practice which the Supreme Court determined to be *per se* unlawful in *United States v. Topco Assoc.*" *Id.*, 1242. The court observed that if Holiday Inns had made the decision unilaterally, rather than in concert with the licensees, it may have been lawful as falling within the vertical restraints in *Schwinn*. *Id.*, at 1243.

36, 39) That holding is correct under the facts of this case and does not deviate from nor conflict with this Court's holding in *United States v. Arnold, Schwinn & Co.*, 388 U.S. 365 (1967) or decisions in other circuits.

Schwinn did not impair a manufacturer's "recognized privilege of designating a territorial area as an exclusive market of a franchisee and of assuring him that he alone in this area would receive shipments from the franchisor of the branded merchandise." FTC Staff Report on Franchising (1969), CCH Trade Reg. Rep. ¶ 444. Vertical territorial and customer restraints have been upheld in a wide variety of situations under the test of *Schwinn*.[13]

1. The Court below Correctly Determined That the Restraints Imposed on East by the Revised Agreement Were Both Valid and Reasonable.

Petitioners' claim that the Court of Appeals "erroneously held the restraints on competition prohibited in *Schwinn*, are not applicable to service industries or trade name licensees."[14] (Pet. 16) Whatever petitioners mean by this statement, it is clear that the Circuit did not so hold. The Ninth Circuit held only that in light of the facts of this case, *Schwinn* was inapplicable to the book-

[13] *See, e.g., Colorado Pump & Supply Co. v. Febco, Inc.*, 472 F.2d 637 (10th Cir.), *cert. denied* 411 U.S. 987 (1973); *Anderson v. American Auto. Ass'n.*, 454 F.2d 1240, 1246 (9th Cir. 1972); *Tripoli Co. v. Wella Corp.*, 425 F.2d 932, 936 (3d Cir.), *cert. denied*, 400 U.S. 831 (1970); *Janel Sales Corp. v. Lanvin Parfums, Inc.*, 396 F.2d 398, 406 (2d Cir.), *cert. denied*, 393 U.S. 938 (1968); *Carter-Wallace, Inc. v. United States*, 449 F.2d 1374, 1380 (Ct. of Cl. 1971); *National Dairy Prod. Corp. v. Milk Drivers & Dairy Emp. Union*, 308 F.Supp. 982 (S.D.N.Y. 1970).

[14] As the Court said in *Schwinn*:

> "We conclude that the proper application of § 1 of the Sherman Act *to this problem* requires differentiation between the situation where the manufacturer parts with title, dominion, or risk with respect to the articles, and where he completely retains ownership and risk of loss." (*Id.* at 1865; emphasis added)

keeping counseling and the seminars. (Pet. App. 18) The books,[15] bookkeeping counseling and seminars are each an interrelated part of Williams Company's business. (Pet.App. 17) The bookkeeping services involve the individualized counseling of a service station dealer by a Williams licensee, which assists that dealer in resolving his particular business problems. The dealer is given a detailed monthly review and analysis of the data recorded by him in Williams Company's copyrighted books, and financial management counseling with regard to inventory control and proper business objectives. These services are rendered by a licensee who has been trained in and utilizes the methods of the Williams Company and provides these services under the "Edwin K. Williams & Co." name.

Similarly, the seminars instruct oil company executives in the essential elements of its dealers' problems in bookkeeping, inventory control and financial management. In seminars, the input, the daily record keeping books, the inventory control, and other methods designed by Williams Company to insure proper financial management are taught to oil company personnel. They, in turn, assist the dealer in his financial management problems. The seminar[16] is designed to inform the oil company personnel how to better understand the operations and problems of the dealer and how to communicate effectively

[15] As to the books, the evidence established that East merely solicited orders from customers, which customers then ordered the books directly from Williams and paid Williams directly. (Pet. App. 6, 30) Thus, the *Schwinn* doctrine was held inapplicable to the book phase of the business. (Pet. App. 18) Petitioners do not claim error on this issue.

[16] The seminar materials introduced in evidence by East, as well as those of Williams, contain voluminous references to the Williams' methods, the Williams' copyrighted materials, the Williams' systems, including the daily sheets which are part and parcel of the record keeping books, all of which are used in the training programs for the seminars.

with that dealer in regard to maximizing the potential profit and efficiency of the dealer's station.

The entire Edwin K. Williams method culminates in the effective utilization, for intelligent financial management, of the data recorded in the Williams Company's copyrighted record keeping books. While each of the Williams Company's services and products might be viewed independently in the abstract, in practice they are all uniquely related to one another and, in combination, provide the complete Williams' method of teaching and intelligent financial management to the oil industry.[17] Thus, the Circuit Court's holding that the territorial restrictions on seminars (Art. III-A, V-C, XII of the Revised Agreement, Res. App. 9-10, 12-13, 19-20) were "reasonable restraints ancillary to [Williams'] purpose of protecting its trade names and copyrights," is in accordance with established precedent. *United States v. Addyston Pipe & Steel Co.*, 85 F. 271 (6th Cir. 1898), *aff'd.* 175 U.S. 211 (1899); *United States v. Columbia Pictures Corp.*, 189 F. Supp. 153, 178 (S.D.N.Y. 1960).

These personal services offered under Williams trade name are clearly not tangible commodities.[18] Unlike a can of beer, a bicycle, or a television set, their quality is not and cannot be controlled at the manufacturing facility; and, Petitioners' contention notwithstanding, it makes no sense to discuss "title, dominion or risk" in

[17] The oil companies desire regional and national standardization of all the services and products that they purchase or endorse for their dealers. The approval of a particular system is generally given at the national headquarters of the oil company. However, the seminars are generally geared to specific regions, because dealer problems differ in various parts of the country, *e.g.*, the ratios of gasoline to TBA and antifreeze of a dealer in Florida are significantly different from those of a dealer in Maine.

[18] Like trademarks, trade names are not "a right in gross or at large . . . There is no such thing as property in a trademark except as a right appurtenant to an established business or trade in connection with which the mark is employed." *United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90, 97 (1918).

relation to personal services. *Schwinn* was not concerned with services, but with an entirely different problem — one of control over tangible goods.

Contrary to Petitioners' claims, the Revised Agreement was not an absolute allocation of territories and customers. Under its terms, East was *not* prevented from soliciting orders for Williams' copyrighted books within its territory, if the books were ultimately to be delivered outside East's territory. In fact, the Revised Agreement specifically recognized this right and provided that East was to receive a commission on *all* orders received from oil companies within its territory, even though the books ordered were ultimately sold to service station purchasers outside East's territory. (Revised Agreement, ¶ VIII-A, B, Res. App. 15-16) Similarly, if a customer from the west desired to attend a seminar sponsored by East within its territory, there was no restriction against East permitting such attendance. Intrabrand competition was *not* foreclosed. (Revised Agreement, ¶ XII-A, B, Res.App. 19)

There were *no* customer restrictions within East's assigned area in the 22 eastern states, and East's duty was to develop that territory to the fullest. (Revised Agreement, ¶ VI-A, Res. App. 13-14) The record below is replete with evidence that the Williams Company's name, trademarks, publication and methodology had over the years come to represent the existence of a national system of experts in the area of financial management for service station dealers. What East was not licensed to do was to utilize the Williams name, trademark services, and materials outside of that designated territory.[19] (Revised Agreement ¶ III-A, V-A, C, Res. App. 9-10, 12-13)

[19] Despite the contentions made by Petitioners of the supposed Sherman Act illegalities of the Revised Agreement, East imposed and is still imposing the same restrictions in its contracts with its licensees that it complains are illegal when imposed upon it. *See* Ex. 1410 (1966 sublicensee contract) and DX-2070 (1972 sublicensee contract).

In its Petition East, for the first time in this litigation,[20] cites Section 3 of the Clayton Act (Pet. 3) and argues that the court below failed to apply *Standard Oil of California v. United States,* 377 U.S. 293 (1949), and approved a vertically imposed restraint which substantially foreclosed interbrand competition. (Pet. 20-22) Respondents do not understand the relevance of Clayton 3 to this case, since Clayton 3 on its face involves "goods, wares, merchandise, machinery, supplies or other commodities." It does not apply and has never been applied to services. *Capital Temporaries, Inc. v. Olsten Corp.,* 506 F.2d 658, 666 (2d Cir. 1974).

Moreover, East's argument that, because "interbrand competition was foreclosed," the combination of Clayton 3, *Standard Stations* and lack of interbrand competition rise to a Sherman 1 violation (Pet. 21), is specious. The argument not only misstates the law[21] and the facts, but ignores the realities of the marketplace. By the terms of the Revised Agreement, East, as Williams

[20] Before the District Court, petitioners did allege that a tying arrangement existed, in that the Revised Agreement forced East "to accept something it does not want (a system of customer and territorial allocations, together with the payment to plaintiff) in order to get something that Williams-East does want (plaintiff's copyrighted record keeping books)." (Pet. App. 39) Petitioners did not raise the tying issue in their brief to the Circuit Court and, accordingly, abandoned it.

[21] A holder of a copyright, trademark, trade name or service mark may grant to a licensee the right to use any one of these items in a designated geographical territory. *Susser v. Carvel Corp.,* 332 F.2d 505, 519 (2d Cir. 1964), *cert. dism.* 381 U.S. 125 (1965); *Jack Winter, Inc. v. Koratron, Inc.,* 375 F. Supp. 1, 63 (N.D. Cal. 1974).

The holder of a copyright similarly may grant exclusive license to others for the sale or distribution of the copyright material. See *United States v. General Elec. Co.,* 272 U.S. 476 (1926); *Interstate Circuit v. United States,* 306 U.S. 208 (1938); *Lawlor v. National Screen Serv.,* 270 F.2d 146 (3rd Cir. 1959). This principle is consonant with the provisions of the copyright law which provide that a copyright holder shall have the exclusive right to print, publish, copy and vend the copyrighted work. 17 U.S.C. 1.

Company's *exclusive licensee* in the eastern area was required, "should it enter into any activities not related to the Operation, the petroleum industry, oil companies or service stations," to act through a separate corporation. East, through Marcoin, did enter into various other activities[22] which, according to Petitioners in the court below, was the very reason for the formation of Marcoin.

The consequences of an exclusive licensee selling a variety of competing personal services under one licensor's name are too obvious to require discussion. That objective, *viz.,* the handling of a competitor's product by East under Williams name, was never discussed, desired, expressed or requested by East.

Were East's arguments accepted, trade name franchising simply could not and would not be done since once one became a franchisee in one area, he would become licensed in every area. Morever, there would be no way that a licensor could exercise any control whatever over the franchisee since the franchisee would be able to offer virtually any services under the franchisor's marks.[23] This ingenious contention of Petitioners does not merit review.

2. There Is No Conflict Between the Circuits on the Applicability of Schwinn to Trademark Licenses for Personal Service Businesses.

The only case cited by Petitioners on the issue of "conflict in the circuits" is *Response of Carolina, Inc. v.*

[22] Marcoin in fact operated, among other businesses, a printing business which supplied forms and promotional literature to East, an insurance business, an escrow business for service stations, and a company operating in the western area known as Mark-Man. (Pet. App. 8, 32-33)

[23] The licensor's failure to exercise control over the licensee's use of the mark can result in the loss of ownership in the mark. 1 J. McCarthy, *Trademarks and Unfair Competition* (1973), pp. 635-648.

Leasco Response, Inc., 537 F.2d 1307 (5th Cir. 1976) ("*Response*"). Unlike the case at bench, *Response* was not concerned with personal services at all, but instead with a business that provided customers with time-shared computer facilities. While the court referred to the business as "computer time-sharing services," what the court was referring to was the computer hardware, systems software, and application software (*id.* at 1326) which are not even remotely akin to the services here involved.[24]

Moreover, the opinion in *Response* does not address itself to that portion of the *Schwinn* opinion discussed in the court below, *viz.*, the applicability *vel non* of the "title, dominion and risk" language of *Schwinn* to these services. Instead, *Schwinn* along with eleven other cases is analyzed on the limited question of whether or not "'firm and resolute' or, at least, some measure of enforcement of a vertical restriction is necessary to rend[er] it actionable." (*Id.* at 1315-1318)

Nowhere in *Response* is the issue of the application of *Schwinn's* "title, dominion and risk" analysis to personal services raised or discussed. There is no conflict between this case and *Response*, as totally different issues were raised and determined in the two cases.

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[24] In *Bunker-Ramo Corp. v. Porterfield*, 21 Ohio St. 2d 321, 257 N.E.2d 365 (1970), the Ohio Supreme Court, when faced with the question of whether computer time-sharing "services" were analogous to personal services, stated:

> "An examination of the record indicates that the activity which the appellee performs is a completely mechanized service transaction. It is not a *personal* service transaction in the sense that there are no people engaged in serving directly the subscribers of appellee. This service is rendered by computers, communication lines and reception and display instruments." (emphasis in original)

C. The Court Below Correctly Found Williams Company's Books Copyrightable and Infringed by East's Publications.

Petitioners are seeking a *de novo* factual hearing in this Court on the question of the copyrightability of, and East's infringement of, Williams Company's books. (*See, e.g.*, Pet. 32, n.24)

Petitioners first claim that Williams Company's books are merely "blank forms" and that, under *Baker v. Selden*, 101 U.S. 99 (1880), and 37 C.F.R. § 202.1, they are not the proper subject of copyright. (Pet. 29-32) Petitioners then claim that:

> "Both the district court and the court of appeals held that the blank forms in West's books were properly the subject of copyright . . . ." (Pet. 29)

This is a misstatement. *Nowhere* did either court claim that "blank forms . . . were properly the subject of copyright." The District Court specifically found that the books were *not* just blank forms, but conveyed information (Pet. App. 41) and, as such, *Baker* was inapplicable. *See also, Cash Dividend Check Corp. v. Davis*, 247 F.2d 458 (9th Cir. 1957) (check forms); *Continental Cas. Co. v. Beardsley*, 253 F.2d 702, 704 (2d Cir. 1958) (insurance forms); *Harcourt, Brace & World, Inc. v. Graphic Controls Corp.*, 327 F. Supp. 517 (S.D.N.Y. 1971) (answer sheets for optical scanning). This finding was a factual determination based upon the trial judge's personal inspection of the books in question, plus hearing lengthy testimony, including the expert testimony of Professor Melville Nimmer. (R.T. 916, 918, 921) Once the trier of fact determined that the books in issue were *not* merely blank forms, there was no reason to apply *Baker*. The trial judge applied the proper rationale in holding that, even if *Baker* is "still good law, . . . it does not come to this defendant's aid." (Pet. App. 41) The Ninth Circuit

also conducted a review of the materials and sustained the District Court's finding that the books "constituted an integrated work entitled to copyright protection." (Pet. App. 16)

With regard to infringements, Petitioners would have this Court sit *nisi prius* and factually determine the similarities between the respective books. (Pet. 32, n.24) This is not the Court's function. *General Talking Pictures Corp. v. Western Elec. Co.*, 304 U.S. 175, 178 (1938).

The trial court determined:

> "[There] is both access and substantial, *if not striking,* similarity between the two book sets.*** With some small rearrangement, the instructions are substantially identical. The sample daily sheet is so *identical* the defendants didn't bother to change the handwritten words and figures used to illustrate the plan. There is sufficient comparison between the arrangements of boxes and columns *to show copying.* Marcoin has not only used plaintiff's system but has used the same ruled lines and headings." (Pet. App. 40-41; emphasis added)

Once the factual determination of access, striking similarity and copying was made, the trial court properly held that East infringed Williams Company's copyrights. *Nimmer on Copyrights,* § 141.2-143.4, pp. 613-634.

CONCLUSION

The Petition requests this Court to reconsider the trial evidence and to find contrary to the evidentiary rulings of the Court of Appeals. The task is obviously not one that should be undertaken by this Court. The holdings of the Court of Appeals are in accord with the applicable prevailing law and compelled by the factual record developed at the trial of the case. Petitioners

have not demonstrated, as they cannot, any meritorious reason why their Petition should be granted.

In an effort to "hitch their wagon to a star," Petitioners urge that this case should be consolidated with *GTE Sylvania, Inc. v. Continental TV, Inc.*, 537 F.2d 980 (9th Cir. 1976), on which certiorari has been granted. Supreme Court Rule 43(5) permits consolidation only for cases "involving the same question." Yet, these cases have virtually nothing in common except for the fact that they both involve vertical territorial restraints and both cite *Schwinn.* The *GTE* case involved a factual situation which the Ninth Circuit held should not be subject to the *per se* rule of *Schwinn.* It found that the *Schwinn* rule should not be "extended to embrace the 'location practices' utilized by Sylvania and others as a method of modern *product* distribution systems." (*GTE*, 537 F.2d at 988; emphasis added) This case is neither concerned with "location clauses" nor "*product* distribution systems." Thus, the question presented by the *GTE* case, *viz.*, whether "location clauses" require application of the *per se* rule of *Schwinn,* is simply not an issue in this case. Consolidation, therefore, would be improper.

For the foregoing reasons, Respondents submit that this Petition should be denied.

Respectfully submitted,

DONALD C. SMALTZ
and
HARLAN P. HUEBNER

January 28, 1977

APPENDIX

1

SETTLEMENT AGREEMENT

I. THE PARTIES

The parties to this Agreement are EDWIN K. WILLIAMS & CO., a California corporation (hereinafter called "Williams"), and EDWIN K. WILLIAMS & CO. (VA.), a Virginia corporation (hereinafter called "Williams — East").

II. RECITALS

A. On April 18, 1968, Williams filed an action against Williams — East in the United States District Court for the Northern District of California, No. 49098, which sought injunctive relief and damages for allegedly incorrect designations of origin and allegedly incorrect description of goods and services, unfair competition, infringement of copyright, infringement of trade name, violation of Sections 6400-6404 of the California Corporations Code, as well as damages for breach of contract and an equitable accounting.

B. On June 24, 1968, Judge George B. Harris of the United States District Court for the Northern District of California denied defendants' motion to quash service of process for lack of jurisdiction and to dismiss for lack of venue, and denied plaintiff's motion for a temporary restraining order, suggesting that the matter be brought to early trial.

C. The parties desire to settle and dispose of the disputes and difficulties arising out of the aforementioned action and matters related thereto, as well as any other disputes and differences resulting from their past business relationships, including but not limited to disputes concerning agreements entered into between Williams and Fred G. Harris dated July 1, 1952, January 2, 1956 and January 1, 1959, to which agreements

Williams — East is the successor in interest to Fred G. Harris, as well as all letter agreements, implied agreements, and oral agreements whatsoever between the parties or their predecessors in interest. This settlement and disposition is to be by means of a Revised Agreement, a copy of which is attached hereto as Exhibit "A", by a Dismissal With Prejudice of the action set forth in Paragraph II. A. hereof, a copy of which dismissal is attached hereto as Exhibit "B", and by entering into this Settlement Agreement.

III. CONSIDERATION

The consideration for this Settlement Agreement shall be the mutual promises by, the benefits flowing to, and the detriments suffered by the parties hereto, including but not limited to the Dismissal With Prejudice attached hereto as Exhibit "B", incorporated by reference and made a part hereof, and the execution and faithful performance by the parties hereto of the Revised Agreement attached hereto as Exhibit "A", incorporated by reference and made a part hereof.

IV. RELEASES

A. Williams hereby releases and forever discharges Williams — East from any and all rights, claims, demands, and causes of action in law or in equity of whatever kind or nature, whether known or unknown, suspected or unsuspected, which it may now have or may have had, arising out of or on account of or in any way connected with or related to the subject matter of the aforesaid action, or any rights under the aforesaid agreements except as such rights may be specifically set forth as continuing rights in the Revised Agreement attached hereto as Exhibit "A".

B. Williams — East hereby releases and forever discharges Williams from any and all rights, claims, de-

mands, and causes of action in law or in equity of whatever kind or nature, whether known or unknown, suspected or unsuspected, which it may now have or may have had, arising out of or on account of or in any way connected with or related to the subject matter of the aforesaid action, or any rights under the aforesaid agreements except as such rights may be specifically set forth as continuing rights in the Revised Agreement attached hereto as Exhibit "A".

V. STIPULATION TO AMEND AND DISMISSAL

The parties agree that:

(1) A stipulation to amend certain language in the complaint shall be filed in the United States District Court for the Northern District of California not later than thirty days from the date of the execution of this Settlement Agreement; the terms of said stipulation shall be agreed upon by the counsel hereunder signed. Williams will not oppose said stipulation and shall execute such stipulation promptly.

(2) The Dismissal With Prejudice attached hereto as Exhibit "B", shall be filed with the United States District Court for the Northern District of California not later than five days subsequent to action by said court with respect to said stipulation or thirty days subsequent to the filing of said stipulation, whichever is sooner.

VI. REVISED AGREEMENT

The parties agree to execute, deliver to each other concurrently herewith, and faithfully perform the Revised Agreement attached hereto as Exhibit "A". The parties further agree that said Revised Agreement shall supplant all agreements between the parties

presently existing, whether oral or written, express or implied, except as expressly set out in said Revised Agreement.

VII. JURISDICTION

It is specifically agreed by the parties hereto that jurisdiction over any action filed by either party arising out of any dispute under this Settlement Agreement (other than with respect to Exhibit "A" annexed hereto) or in connection with the Dismissal With Prejudice of the present action in the United States District Court for the Northern District of California, No. 49098, Exhibit "B" hereto, shall be vested in the United States District Court for the Northern District of California.

VIII. SUCCESSORS AND ASSIGNS

All duties under this Settlement Agreement shall be binding upon all successors, assigns, agents, subsidiaries, affiliates, parent companies, or any other associated persons whatsoever irrespective of whether said persons have obtained said status in accord with or in violation of said Revised Agreement, or otherwise.

IX. ENTIRE AGREEMENT

This Settlement Agreement, including all exhibits hereto, is entire and constitutes all of the promises and representations made by the parties herein to one another and shall constitute the sole and final agreement and disposition in the above-entitled action.

X. SEVERABILITY

Shall any paragraph, subparagraph, or provision hereof be deemed, for any reason whatsoever, to be invalid or inoperative, in whole or in part, said paragraph, sub-

paragraph or provision shall be deemed severable to the extent it is invalid or inoperative and shall not affect the force and validity of all other provisions of this Settlement Agreement or of the Revised Agreement, Exhibit "A" hereto, or of the Dismissal With Prejudice, Exhibit "B" hereto.

XI. PARAGRAPH HEADINGS

The paragraph headings of this Settlement Agreement are for convenience only, and are not part of the context hereof.

XII. EXECUTION AND EFFECTIVE DATE

This Settlement Agreement is executed on July 25, 1968, at Pebble Beach, California, and said date shall be deemed the effective date thereof.

EDWIN K. WILLIAMS & CO.

By Mrs. E. K. WILLIAMS

Mrs. E. K. Williams,
President

EDWIN K. WILLIAMS & CO.
(VA.)

By FRED G. HARRIS

Fred G. Harris,
Chairman of the Board

By WILLIAM C. McFADDEN

William C. McFadden,
President

This Settlement Agreement
is approved both in form
and content.

KEATINGE & STERLING

By RICHARD H. KEATINGE
Richard H. Keatinge

By ROBERT YALE LIBOTT
Robert Yale Libott
Attorneys for Edwin K. Williams
& Co.

NAYLOR & NEAL

By JAMES M. NAYLOR
James M. Naylor
Attorneys for Edwin K. Williams
& Co. (Va.)

REVISED AGREEMENT

I. THE PARTIES

The parties to this Agreement are EDWIN K. WILLIAMS & CO., a California corporation (hereinafter called "Williams"), and EDWIN K. WILLIAMS & Co. (VA.) (hereinafter called "Williams — East").

II. RECITALS

A. Since the year 1935, Williams and its predecessors have been engaged in the business of designing and providing bookkeeping and business management systems for oil companies and bookkeeping, business management systems and services in conjunction therewith for service station dealers. Said business has been operated under the name of Edwin K. Williams & Co. and has utilized various corporate designations, trademarks and trade names, including but not limited "Profit Guide," "Q.S.R.," "Quick Sales Recorder," "Business Analyzer," "Profit Analyzer," "S.A.S.I.," and "Serv-A-Station, Inc."

B. Since the first day of July, 1952, Fred G. Harris of Falls Church, Virginia, and his successors in interest, presently Williams — East, have been the representative in the eastern United States for the business and publications of Williams pursuant to an agreement of said date. Said agreement did "grant, bargain and sell" the "exclusive right, title and interest to sell, market and promote all bookkeeping systems, forms, books, and methods" published or used by Williams as well as any publications published or sold by Williams subsequent to that date. Said agreement further gave the predecessors of Williams — East the right to operate as an independent proprietor, and to "market and sell all bookkeeping systems, forms, services and methods under his own name, the said or other names," and to "license the bookkeep-

ing service to gasoline stations under his own name, the said name or other names," and "to have the right to set up licensees to use said bookkeeping services . . ." Pursuant to said agreement and supplementary agreements thereto as hereinafter set forth, Williams — East and its predecessors have operated said business in the eastern section of the United States up to and including the date hereof.

C. A supplemental agreement was entered into between Williams and the predecessor of Williams — East dated the second day of January, 1956, which agreement made certain alterations in the territorial rights granted under the agreement set forth in Section II. B. above.

D. An additional supplemental agreement was entered into between Williams and the predecessor of Williams — East on the first day of January, 1959. Said agreement altered certain of the territorial rights of the parties and made special provisions for certain additional commission payments in conjunction therewith.

E. At various times the parties hereto or their predecessors have entered into other agreements in connection with the territorial grant given to Fred G. Harris by the agreement of July 1, 1952, and the supplements thereto. Said agreements have been in the form of letters, or oral, or have arisen by implication through the conduct of the parties.

F. Disputes have arisen and now exist concerning the rights and obligations of the parties under the aforesaid agreements, both express and implied. Said disputes include, but are not limited to, the matters set forth in the complaint in an action brought by Williams against Williams — East and a division thereof, in the United States District Court for the Northern District of California. Said action is entitled *Edwin K. Williams & Co., a California Corporation, Plaintiff, v. Edwin K. Williams & Co. (Va.), a Virginia corporation and Staff Development Company, a Virginia corporation, Defendants,* and is No. 49098 on the docket of said court.

G. The parties hereto desire to resolve all disputes between them by means of this Revised Agreement, a Settlement Agreement which is being executed concurrently herewith, and the Dismissal With Prejudice of the aforesaid action. It is the specific intent of the parties that this Revised Agreement shall set forth all of the rights and duties of the parties in conjunction with the "Operation," as hereinafter defined, by Williams — East within the "Territory," as hereinafter defined. It is further the specific intent of the parties that this Revised Agreement shall supersede all other agreements between the parties including, but not limited to, those hereinbefore set forth.

III. DEFINITIONS

The following definitions shall be deemed applicable to all provisions of this Revised Agreement and to the rights and duties of the parties flowing therefrom:

A. *Operation* — The term "Operation" shall include all of the activities of Williams, territorial rights to which were heretofore granted to Williams — East and which are confirmed in this Revised Agreement, except as indicated herein. These include the sale, franchise and use of the services, publications, and systems developed by Williams, the licensing of licensees, the operation of branch offices, the promotion of said services, publications and systems with licensees, service stations and oil companies, the right to print forms developed by Williams, not including daily books and recap books, either directly, through a subsidiary, or otherwise, the right to make versions and derivative works based upon the publications of Williams, the right to utilize and to license others to utilize the trade names and trademarks used by Williams, and to exploit the copyrighted material

of Williams as well as other copyrighted material derived therefrom, and the right to conduct seminars and business management or sales programs in conjunction with oil company or service station management. The rights of Williams — East in regard to the Operation shall be limited to the Territory as hereinafter defined, and subject to all of the terms and conditions of this Revised Agreement.

B. *Territory* — The term "Territory" includes those portions of the continental United States to which Williams — East has obtained the rights to conduct the Operation. Said Territory is defined as the following states or portions thereof:

Alabama
Connecticut
Delaware
District of Columbia
Florida
Georgia
Indiana (limited to the counties of Harrison, Floyd and Clark)
Kentucky (with the exception of the counties of Boone, Kenton, Campbell, Daviess, Henderson and Union)
Louisiana
Maine
Maryland
Massachusetts
Mississippi
New Hampshire
New Jersey
New York
Ohio (limited to the counties of Lawrence, Gallia and Sciote)
Pennsylvania
North Carolina

Rhode Island
South Carolina
Tennessee
Vermont
Virginia
West Virginia

C. *Copyrighted Material* — The term "copyrighted material" shall include all material published by either party to which copyright notice has been affixed, whether or not said material has been deposited with the Register of Copyrights and irrespective of the validity of said notice or the copyright claimed thereby. Additionally, the term "copyrighted material" shall be deemed to include unpublished materials subject to common law copyright.

D. *Licensee* — The term "licensee" shall be defined as a person or persons obtaining the right to exercise all or part of the rights in the Operation as recognized and confirmed in this Revised Agreement, and shall include sub-branches operated by such licensee.

E. *Branch Offices* — The term "branch offices" shall include any business establishments including sub-branch offices conducted by Williams — East in connection with the Operation other than through-licensees, including but not limited to offices staffed by company employees, which perform functions identical to or substantially similar to those performed by licensees. Branch offices shall not include district offices or company divisions acting solely in advisory or executive capacities in relation to licensees and branch offices.

F. *Commissions* — The term "commissions" shall include all monies payable by either party under this Revised Agreement, as hereinafter set forth.

IV. CONSIDERATIONS

The consideration for this Revised Agreement shall be the mutual promises by, the benefits flowing to, and the detriments suffered by the parties hereto, as hereinafter set forth, including but not limited to the abandonment of such rights as each of the parties may have had under the prior agreements between the parties, as well as the execution and faithful performance of the Settlement Agreement executed by the parties concurrently herewith and the entry of the Dismissal With Prejudice of the action set forth in paragraph II. F. of this Revised Agreement.

V. GRANT OF RIGHTS

A. Subject to the terms hereof, Williams irrevocably grants in perpetuity to Williams — East exclusive rights to the Operation in the Territory, said rights to include an exclusive license within the Territory to all present and future copyrighted material of which Williams is the proprietor.

B. Subject to the terms hereof, Williams — East irrevocably grants to Williams an exclusive license to all present and future copyrighted material of which Williams — East is the proprietor, said license to be valid throughout the world except within the Territory.

C. Nothing in this Article V. or elsewhere in this Revised Agreement shall be construed to permit Williams — East to engage in the Operation, the promotion thereof or sales in conjunction therewith to the petroleum industry, oil companies, or service station management other than within the Territory. All of said rights in conjunction with the Operation throughout the world other than within the Territory shall remain vested in Williams and may be licensed, granted or assigned without restriction whatsoever. Notwithstanding the

foregoing, sales and promotional efforts may be made by either party at the national headquarters of any oil company subject to the terms of paragraph XV. hereof.

VI. OBLIGATIONS OF THE PARTIES

A. Williams — East agrees that:

(1) It will utilize its best efforts at all times to conduct and promote all phases of the Operation.

(2) That as to orders procured by Williams — East, it will instruct all oil companies within the Territory to order bookkeeping systems and books directly from Williams and to tender payment therefor directly to Williams, the price for said publications to be based on quotations in Williams' latest available price list.

(3) That it will actively solicit new licensees, install new licensees and fill present and future licensee vacancies as soon as possible.

(4) That will cooperate fully in the instruction, supervision and promotion of licensee operations to the benefit of both parties.

(5) That it will employ and compensate all persons engaged in the Operation and pay all expenses incurred therein.

(6) That it will promptly inform Williams of all persons, firms or corporations desiring to purchase publications or otherwise utilize the services provided by Williams outside the Territory.

(7) That it will promptly pay all commissions due to Williams under the terms hereof.

(8) That will conduct and maintain an active promotional program in conjunction with the Operation; such program may include trade advertising and the holding

of seminars and other management training programs for oil company personnel.

(9) That it will, upon publication of new books and materials, divulge the same to Williams by copies to the end that Williams shall be kept currently informed relative to available books and materials.

B. Williams agrees that:

(1) It will fill promptly all orders for bookeeping systems and books obtained by Williams — East, including orders of oil companies in Williams — East's Territory, of Williams — East licensees, of branch offices and of Williams — East itself.

(2) That it will promptly inform Williams — East of all persons, firms or corporations desiring to utilize any facet of the Operation within the Territory.

(3) That it will promptly pay all commissions due to Williams — East under the terms hereof.

(4) That it will conduct and maintain an active promotion program; such program may include trade advertising and the holding of seminars and other management training programs for oil company personnel.

(5) That it will, upon publication of new books and materials, divulge the same to Williams — East by copies to the end that Williams — East shall be kept currently informed relative to available books and materials.

VII. CORPORATE AND TRADE NAMES

A. Williams — East agrees that within thirty days of the date of the execution hereof, it will commence and promptly proceed with the necessary legal steps to change

its corporate name from Edwin K. Williams & Co. (Va.) to Edwin K. Williams & Co. — East.

B. Williams — East further agrees that on all letterheads, publications, brochures, business cards and advertising materials the name of Williams — East will be presented in the following fashion:

Edwin K. Williams & Co. — East
Eastern Representative
Edwin K. Williams & Co.

C. Williams — East agrees that it will carry on all activities in conjunction with the Operation under the corporate name of Edwin K. Williams & Co. — East, and wherever practicable, utilize the designation set forth in Subparagraph B. of this Article VII.

D. Williams — East agrees that should it enter into any activities not related to the Operation, the petroleum industry, oil companies or service stations, it will act through a separate corporation, the name of said corporation shall not contain the name Edwin K. Williams or any contraction or abbreviation thereof, nor shall the name of Edwin K. Williams, any trade names used in connection there with or any trademark used in connection therewith, either by Williams or by Williams — East be used in conjunction with said activities.

VIII. COMMISSIONS

A. Commencing with the date hereof, Williams shall pay to Williams — East a sum equal to thirty percent (30%) of the total amount received (less freight costs for shipping) of all Bookkeeping Systems and Books sold by Williams — East within the Territory. This shall include all Bookkeeping Systems and Books sold by Williams — East to oil companies headquartered within the Territory regardless of where delivered, but shall otherwise be

limited to Bookkeeping Systems and Books delivered to persons, firms or corporations within the Territory.

B. In addition to the foregoing, Williams shall pay to Williams — East a sum equal to fifteen percent (15%) of all gross billings made by Williams to the Cities Service Oil Company of Delaware (now by change of name Cities Service Oil Co.) and to the Standard Oil Company of Indiana (now by change of name American Oil Company).

C. Williams agrees to sell to Williams — East all bookkeeping systems and books directly ordered by Williams — East at a discount of thirty percent (30%) from the retail price, on a 30-day net basis, plus freight.

D. Williams — East agrees to pay to Williams a sum equal to thirty percent (30%) of the gross monthly revenue received from the licensees of Williams — East as defined in paragraph III. D. and from the branch offices of Williams — East as defined in paragraph III. E. With respect to each branch office as defined in paragraph III. E., the payment basis for said branch office shall be the same percentage of gross revenues which said branch office would have paid to Williams — East had said branch office been operated by an independent licensee as defined in paragraph III. D.

IX. REPORTS AND TIME OF PAYMENTS

The parties agree that the commissions set forth in Article VIII. hereof shall be due and payable on the fifteenth day of each month, said payments to be based upon actual cash receipts as of the 25th day of the preceding month. The parties further agree that said payments shall be accompanied by reports showing in reasonable detail the basis for said payments, such as, for example, an IBM run, showing accounts broken down as to oil companies.

X. AUDITS AND INSPECTIONS

The parties hereto agree to keep books, records and accounts in connection with the Operation, and all commissions payable thereunder. At the request of either party, said party shall, at its sole expense, have the right to inspect or audit said books and records during ordinary business hours, and upon reasonable notice, as may be necessary:

(1) To determine, in respect of any reporting period ending not more than two years prior to the date of such request, the correctness of any report or payment under this Revised Agreement, or

(2) To obtain in respect of any reporting period ending not more than two years prior to the date of such request, information as to commissions payable in the event that no report or payment has been made pursuant to this Revised Agreement.

XI. COPYRIGHT

A. The parties agree that as soon as practicable a copyright manual will be devised for the use of the parties by respective counsel, each party bearing the expense of its own counsel in this connection. Said copyright management system is to include a system for the publications of copyright notice, the filing for claims of copyright with the Register of Copyrights, and the maintenance of adequate records thereof. It is further agreed that all Copyrighted Material belonging to either party shall be sent to the other party as soon as practicable. It is further agreed that each party will inform the other of all claims of copyright and any negative action, if any, taken thereon by the copyright office.

B. In the event that at any time either party learns of infringing publications by any third party of the copyrighted material belonging to either party, said party

shall promptly inform the party which is the proprietor of said copyright of said infringement, together with any facts available concerning it. The proprietor of said copyright shall thereupon promptly take all action necessary, including, but not limited to, the filing of a lawsuit in the appropriate court to protect the interests of the parties in said copyrighted material. The parties agree that if an action is filed under the provisions of this Article XI. B., said action will be prosecuted diligently, either to judgment or to settlement.

C. The obligations of each of the parties in connection with third party infringement of the copyrights of either party as set forth in Section XI. B. shall be identical in the event that the discovery of said infringement is made by the party which is the proprietor of said copyright.

D. Each party agrees to provide full cooperation in all actions to protect the interests of the parties in the copyrighted material including but not limited to lawsuits brought by the party which is the copyright proprietor.

E. Williams — East agrees that it will not voluntarily contest, directly or indirectly, the validity of any of the copyrights heretofore or hereafter vested in Williams, nor voluntarily assist others, directly or indirectly, in infringing said copyrights, or in the defense of any suit which may be brought for the infringement of said copyrights.

F. Except insofar as publications bearing copyright notices in the name of Williams — East, a subsidiary, division, or trade style thereof, shall purport to claim copyright on materials properly vested in Williams, Williams agrees it will not voluntarily contest, directly or indirectly, the validity of any copyrights of which Willams — East is the proprietor, or voluntarily assist others, directly or indirectly, in infringing said copyrights, or in the defense of any suit which may be brought for the infringement of said copyrights.

XII. SEMINARS AND TRAINING PROGRAMS

A. All seminars and training programs, including business management programs and sales training programs for the petroleum industry, oil companies, service station operators and licensees conducted within the Territory shall be conducted by Williams — East.

B. All seminars and training programs, including business management programs and sales training programs for the petroleum industry, oil companies, service station operators and licensees conducted outside the Territory shall be conducted by Williams.

C. Williams agrees that if any seminar or other management training program presented by it contains all or substantially all of the material prepaid for a seminar or training program by Williams — East, exclusive of materials previously published by or owned by Williams and of materials available to Williams from other sources, including but not limited to materials in the public domain, Williams will pay to Williams — East a sum equal to ten percent (10%) of the tuition fees, but excluding expenses other than tuition paid by the oil company for whom said seminar is being conducted.

D. Williams — East agrees that if any seminar or other management training program presented by it contains all or substantially all of the material prepared for a seminar or training program by Williams, exclusive of materials previously published by or owned by Williams — East and of materials available to Williams — East from other sources, including, but not limited to materials in the public domain, Williams — East will pay to Williams a sum equal to ten percent (10%) of the tuition fees, but excluding expenses other than tuition paid by the oil company for whom said seminar is being conducted.

E. Notwithstanding the foregoing paragraph XII. C., it is understood between the parties that no more than two experts in management training procedures from Williams will examine the materials, methods and profit potential of the seminars as presented by Williams — East. If, in the good faith judgment of said person or persons, the value of the material and know-how to be provided by Williams — East and the profit potential shall justify an increase in payment, Williams will agree to pay to Williams — East a sum equal to fifteen percent (15%) of the tuition fees received under all of the other terms and conditions of Article XII. C. preceding.

XIII. TERMINATION

A. If Williams — East shall at any time fail to make any payment as herein provided, Williams, in addition to all other rights and remedies it may have, may terminate this Revised Agreement upon not less than sixty days' prior notice to Williams — East. If Williams — East shall correct such default during such sixty-day period, the notice shall be of no further force and effect. If said default shall not be corrected within said sixty-day period, this Revised Agreement shall terminate and all rights to the Territory revert to Williams 120 days from the date of said notice.

B. If Williams — East shall go into liquidation, or if a receiver or trustee be appointed for the property or estate of Williams — East or if Williams — East makes an assignment for the benefit of creditors, whether any of the aforesaid events be the outcome of a voluntary act of Williams — East or otherwise, Williams may terminate this Revised Agreement forthwith by giving notice to such effect, and such notice shall be effective immediately.

C. Termination of this Revised Agreement shall be without prejudice to the rights of the parties to receive

all commissions accrued and unpaid on the effective date of such termination and to any other remedies which either party may then or thereafter have hereunder or otherwise.

XIV. CONTINUITY OF INTEREST AND SUCCESSION

A. It is agreed between the parties that the control of each company shall continue to be vested in persons who are or shall become active in the operations thereof. In order to effect this end, it is agreed that within six months from the effective date hereof each party will enter into a stock purchase agreement providing:

(1) that in the event of the death of any stockholder owning more than five percent (5%) of the stock, the corporation shall have the right to buy all capital stock in excess of five percent (5%), and if said right is not exercised by the corporation, that right shall be vested in other stockholders who are officers or directors active in the operation of said corporation, and if none of said officers or directors exercise said right, that right shall be vested in the other party hereto;

(2) in the event that any owner of more than five percent (5%) of the stock of either corporation desires to dispose of said stock, a similar agreement for the purchase of all stock in excess of five percent (5%) of the capital stock of said corporation shall be entered into, the continuity of said rights of purchase to be identical with (1) above and the price of said purchase to be either the amount tendered in any bona fide offer as a result of an arm's length transaction with a third party, or, in the event there shall be no such bona fide offer, the appraised value of said stock.

B. Notwithstanding the foregoing, nothing in this Article XIV. shall be deemed to prevent a bona fide

public offering of the capital stock of either corporation or of both corporations provided that such offering does not include an amount of capital stock which would give effective control of said corporation or corporations to persons other than officers and directors thereof who are actively engaged in the business of said corporation.

XV. COOPERATION AND COORDINATION

A. The parties agree to cooperate to the fullest extent possible to further the operation and the welfare and development of business and goodwill for both of the parties hereto.

B. In conjunction with said cooperation, the parties agree to coordinate dealings with oil companies in the following manner:

(1) In the event that any representative of Williams — East has reason to call on the headquarters of any oil company which is located outside the Territory, said call being concerned with service to be provided within the Territory, said representative will give reasonable notice of such proposed call to the regional manager of Williams in the area where said oil company office is located and give said regional manager the opportunity to be present at said call, or, at his sole option, to have another representative of Williams present at said call.

(2) In the event that any representative of Williams has reason to call on the headquarters of an oil company which is located within the Territory, said call being concerned with service to be provided outside the Territory, said representative will give reasonable notice of such proposed call to the regional manager of Williams — East in the area where said oil company office is located and give said regional manager the opportunity to be present at said call, or, at his sole

option, to have another representative of Williams — East present at said call.

C. Nothing in this Article XV. shall be deemed to restrict representatives of Williams from calling on international and foreign marketing personnel of oil companies headquartered within the Territory when such call deals solely with publications and services to be provided outside of the continental United States.

D. In order to facilitate cooperation in the servicing of oil companies, the parties agree that copies of all letters to and from oil companies concerning matters within the Territory which are written or received by Williams will be provided promptly to Williams — East and copies of all letters to and from the oil companies concerning matters outside the Territory which are written or received by Williams — East will be provided promptly to Williams.

XVI. STANDARDIZATION AND STEERING COMMITTEE

It is the desire of the parties to standardize all external forms and procedures used throughout the United States by Williams and Williams — East. To effect said standardization a Steering Committee will be established within ninety days of the effective date hereof consisting of not more than two representativees of each of the parties hereto. It is further agreed that insofar as possible, all licensee agreements made by Williams — East will be identical with the licensee agreements made by Williams with its own licensees.

XVII. UNIQUE NATURE OF AGREEMENT

The parties hereto agree and acknowledge that the rights conveyed to Williams — East by this Revised Agreement are of a unique and special nature and that

neither party will have an adequate remedy at law in the event of the failure of the other party to abide by the terms and conditions of this Revised Agreement other than the terms and conditions involving the payment of commissions, nor will money damages adequately compensate for such injury. It is, therefore, agreed between the parties that for any violation of the terms and conditions of this Revised Agreement a restraining order or an injunction may issue or a decree of specific performance be ordered by a court of equity in addition to any other rights and remedies which the injured party may have at law or in equity.

XVIII. NOTICES

All notices and reports provided for in this Revised Agreement shall be in writing and shall be considered delivered when deposited in the United States mail, certified or registered, return receipt requested, postage prepaid, to the following addresses:

To Williams: Edwin K. Williams & Co.
3888 State Street
Santa Barbara, Calif. 93105

To Williams — East: Edwin K. Williams
& Co. — East
207 Park Avenue
Falls Church, Va. 22046

XIX. LAW TO GOVERN

This Revised Agreement shall be construed and the respective rights of the parties hereto determined according to the laws of the State of California.

XX. CONFLICT OF PROVISIONS

If any provision of this Revised Agreement shall in any way be deemed to conflict with any provision, covenant,

condition or proviso whatsover in the Settlement Agreement executed concurrently herewith, the provisions of this Revised Agreement shall be deemed controlling.

XXI. ASSIGNABILITY

This Revised Agreement shall not be assignable by either party without the written consent of the other party except in the event of a statutory merger or reorganization of either party under the provisions of Section 368 of the Internal Revenue Code, provided, however, that no such merger or reorganization shall alter the control of the company or the continuity of interest or succession thereto as set forth in Article XIII. hereof. When duly assigned in accordance herewith, this Revised Agreement shall be binding upon and inure to the benefit of the assignee

XXII. WARRANTY

Williams warrants and represents that, exclusive of the prior agreements between the parties hereto which are superseded by this Revised Agreement, Williams owns the entire right, title and interest in the Operation and has the unrestricted right to enter into this Revised Agreement, and has not granted or otherwise conveyed any interest in or rights under said Operation including, but not limited to, the copyrighted material conveyed hereby to any other person or entity whatsoever.

XXIII. ENTIRE AGREEMENT

This Revised Agreement is entire and constitutes all of the promises and representations made by the parties herein to one another.

XXIV. SEVERABILITY

Should any paragraph, subparagraph or provision hereof be deemed, for any reason whatsoever, to be invalid or inoperative, said paragraph, subparagraph or provision shall be deemed severable and shall not affect the force and validity of all other provisions of this Revised Agreement.

XXV. INDEPENDENCE OF PARTIES

No provision of this Revised Agreement, express or implied, shall be deemed to establish a joint venture, partnership, or agency relationship between the parties. Williams — East shall operate as an independent proprietor, and Williams shall not be liable for any bills or indebtedness of any nature incurred by Williams — East, nor shall Williams — East be liable for any bills or indebtedness of any nature incurred by Williams. Neither party shall be liable for any of the acts of the other party including but not limited to the assumption of contractual obligations or any acts resulting in legal liabilities of any kind with respect to third parties including but not limited to any monetary recoveries which may be made by third parties as a result thereof.

XXVI. PRIOR AGREEMENTS

All prior agreements between the parties, including all agreements set forth in Article II. hereof, are hereby terminated and superseded in their entirety by this Revised Agreement.

XXVII. HEADINGS

The paragraph headings hereof are for convenience only and are not part of the context.

XXVIII. EXECUTION AND EFFECTIVE DATE

This Revised Agreement is executed on July 25, 1968, and that shall be deemed the effective date thereof.

EDWIN K. WILLIAMS & CO.

By Mrs. E. K. WILLIAMS

Mrs. E. K. Williams,
President

EDWIN K. WILLIAMS & CO. (VA.)

By FRED G. HARRIS

Fred G. Harris,
Chairman of the Board

By WILLIAM C. McFADDEN

William C. McFadden,
President

This Agreement is approved
both in form and content.

KEATINGE & STERLING

By RICHARD H. KEATINGE

Richard H. Keatinge

By ROBERT YALE LIBOTT

Robert Yale Libott
Attorneys for Edwin K. Williams & Co.

NAYLOR & NEAL

By JAMES M. NAYLOR

Attorneys for Edwin K. Williams & Co. (Va.)

STATE OF CALIFORNIA)
) SS
COUNTY OF LOS ANGELES)

Ernest Cook , being first duly sworn deposes and says:

That affiant is and was, at all times herein mentioned, a citizen of the United States and a resident of the County of Los Angeles, over the age of eighteen (18) years, and not a party to or interested in the within action; that affiant's business address is 1706 Maple Avenue, Los Angeles, California, 90015.

That on January 28, 1977 affiant caused a courier to forward the within brief to be served on January 31, 1977 and forward by mail the within

Brief for Respondents in Opposition upon the following:

By Courier

United States Supreme Court — 1 original plus
United States Supreme Court Building — 40 copies
1st Avenue, N.E.
Washington, D. C. 20543

By Mail

Raymond Fisher, Esq. — 3 copies
Tuttle & Taylor
606 South Grand Avenue
Los Angeles, California 90017

That there is a regular communication by mail between the place of mailing and the place so addressed.

Ernest Cook

Subscribed and sworn to before me
this 28th day of January, 1977

Rita Korney

Notary Public in and for the
State of California

OFFICIAL SEAL
RITA KORNEY
NOTARY PUBLIC—CALIFORNIA
PRINCIPAL OFFICE IN
LOS ANGELES COUNTY
My Commission Expires October 7, 1980

Supreme Court, U. S.
FILED
FEB 5 1977
MICHAEL RODAK, JR., CLERK

IN THE

Supreme Court of the United States

October Term, 1976
No. 76-910

EDWIN K. WILLIAMS & CO.—EAST, INC. and MARCOIN, INC.,

Petitioners,

vs.

EDWIN K. WILLIAMS & CO., INC., KEMP PRINTING CO. and MRS. E. K. WILLIAMS,

Respondents.

REPLY BRIEF OF PETITIONERS.

RAYMOND C. FISHER,
609 South Grand Avenue,
Los Angeles, Calif. 90017,
Counsel for Petitioners.

TUTTLE & TAYLOR INCORPORATED,
HAROLD J. KWALWASSER,
Of Counsel.

Parker & Son, Inc., Law Printers, Los Angeles. Phone 724-6622

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REPLY BRIEF OF PETITIONERS.

I.

The Ninth Circuit Opinion Holds That Broad and Absolute Restraints Are Permissible in Any Service Industry.

This case squarely presents for this Court's consideration antitrust questions involving horizontal and vertical restraints in the service industries, which are particularly compelling matters for disposition in light of this Court's present consideration of the principles of *United States v. Arnold, Schwinn & Co.*, 388 U.S. 365 (1967), in *GTE Sylvania Inc. v. Continental T.V., Inc.*, (No. 76-15).

Respondents' Brief in Opposition ("Br. Opp.") attempts to convey the impression the case turns on specific facts involving a limited series of restraints. (Br. Opp. pp. 10-11.) It does not.

The opinion below is a broad, unqualified holding. It accepts the fact that there were absolute prohibitions on petitioner East's competing with West outside East's assigned territory, or in any territory under any other tradename with regard to any product related to the retail petroleum business. 542 F.2d at 1061-62. (Pet. App. pp. 16-18.)[1] The Ninth Circuit also accepts as fact that East was a potential competitor, but was eliminated as such in 1952 and again in 1968 under the terms of the Revised Agreement. *Id.* Based on these facts, the Ninth Circuit concludes in less than two pages that *Schwinn* does not apply to service industries and that competitors may "exchange" their right to compete and allocate territories and customers through a tradename license. In short, however much respondents may now wish to embellish or restate the facts, their effort is irrelevant because the opinion below, which is the holding this Court must review, sets forth the facts the Ninth Circuit deemed relevant to its broad ruling.[2]

---

[1]Respondents have previously conceded the breadth of the restraints (see Petition pp. 11-12; Pet. App. pp. 45-46), although they now attempt to minimize the impact of the restraints here by creating strawmen. Their discussion of the non-existence of internal territorial and customer restraints within East's territory is beside the point. (Br. Opp. p. 19.) Rather, it is the absolute intrabrand restraints *between* territories, and the absolute *inter*brand restraints both inside and outside East's territory that are at issue.

Similarly, petitioners are not quarreling with exclusive dealing cases, as is suggested by respondents at page 16 of their brief. This is not an exclusive dealing case.

[2]Respondents, for example, try hard to contradict the Ninth Circuit's conclusion that East was a potential competitor of West in the seminar business. They suggest that East's seminars were simply an extension of West's own seminars (Br. Opp. pp. 17-18), which is contrary to the court's opinion (*see* 542 F.2d at 1057, 1061; Pet. App. pp. 7-8, 17) and the terms of the Revised Agreement itself (Paragraph XII, reprinted at Resp. App. pp. 19-20). Paragraph XII-D provided that East would have to pay West a royalty if West's materials were used; West at trial expressly disavowed having any claim against East under this provision. Indeed, Paragraph XII exemplifies the absurdity of justifying the market division between the two companies under the rationale adopted by the Ninth Circuit.

II.

Respondents' Distinction Between This Case and Response of Carolina, Inc. v. Leasco Response, Inc., 537 F.2d 1307 (5th Cir. 1976), Is Inaccurate, but More Importantly, Illustrates the Need for a Decision of This Court on the Question of What Constitutes Permissible Vertical Restraints in Service Industries.

Respondents' claim that the Fifth Circuit's decision in *Response of Carolina, Inc. v. Leasco Response, Inc., supra,* does not conflict with the opinion below because one case concerned computer time-sharing and the other concerned accounting and management services makes no sense. (Br. Opp. pp. 21-22.) Neither case decides that *Schwinn* is or is not applicable because of the particular *type* of service involved. Rather, the Ninth Circuit holds *Schwinn* inapplicable because a service industry is involved; the Fifth Circuit, on the other hand, applies *Schwinn* in a service industry context. The decisions cannot be reconciled.

III.

The Issue of Foreclosure of Competition Was Raised Below.

Respondents allege that petitioners have, for the first time, raised the issue of foreclosure of competition under the rule of *United States v. Standard Oil Co. of California,* 337 U.S. 293 (1949) ("Standard Stations"). (Br. Opp. p. 20.) To the contrary, the issue

was raised both in the district court in Defendants' Memorandum of Contentions of Fact and Law, pages 86-87, and in the Ninth Circuit in Defendants' Opening Brief on Appeal, pages 39-40.

Moreover, respondents misstate petitioners' reference to § 3 of the Clayton Act (which by its terms does not apply to services) and *Standard Stations*. Petitioners have argued only that an analysis similar to that employed in *Standard Stations* should have been applied here to test whether there was an actual restraint of trade that constituted a violation of § 1 of the Sherman Act. (Pet. Br. pp. 20-22.) Such an analysis was employed by the Third Circuit in *America Motor Inns, Inc. v. Holiday Inns, Inc.*, 521 F.2d 1230, 1250-52 (1975), but ignored by the Ninth Circuit here.

February 4, 1977.

Respectfully submitted,

RAYMOND C. FISHER,
Counsel for Petitioners.

TUTTLE & TAYLOR INCORPORATED,
HAROLD J. KWALWASSER,
Of Counsel.